1968

Canadian Pacific Annual Report

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Notice to Shareholders

The Eighty-eighth Annual General Meeting of the Shareholders of this Company, for the election of Directors to take the places of the retiring Directors and for the transaction of business generally, will be held on Wednesday, the seventh day of May next, at Odeon Cinema, Place du Canada, Montreal (entrance via Le Château Champlain), at eleven a.m. (daylight saving time, if operative).

Transfer books of shares and stock will be closed at the close of business on Tuesday, the 29th day of April, 1969.

All books will be re-opened on Thursday, the eighth day of May, 1969.

By order of the Board,
T. F. Turner, Secretary.
Montreal, March 10th, 1969.

Design in Motion — Cover photo symbolizes CP Rail diesel locomotive colour scheme and multimark on the move.

Canadian Pacific Railway Company

	1968	1967
(Dollars in millions, except amounts per share)		
Income, after Fixed Charges, from Railway and Miscellaneous Sources*	**$ 39.8**	$ 34.8
Per Ordinary Share, after Preference Dividends	**$ 2.54**	$ 2.19
Dividends Declared		
Preference Stock	**$ 3.3**	$ 3.4
Ordinary Stock	**$ 21.5**	$ 21.5
Per Ordinary Share	**$ 1.50**	$ 1.50
Income from Canadian Pacific Investments Limited	**$ 21.5**	$ 20.1
Dividends Declared therefrom	**$ 21.5**	$ 20.1
Per Ordinary Share	**$ 1.50**	$ 1.40
Total Dividends per Ordinary Share	**$ 3.00**	$ 2.90
Taxes — Income and Other	**$ 57.8**	$ 50.7
Additions to Properties	**$124.8**	$117.9

*Excluding Income from Canadian Pacific Investments Limited

Canadian Pacific Air Lines, Limited

	1968	1967
Net Income	**$ 2.4**	$ 3.2
Operating Revenues	**$106.7**	$ 95.2
Available Ton Miles — millions	**472.3**	383.5
Revenue per Available Ton Mile	**22.3¢**	24.4¢
Operating Cost per Available Ton Mile	**21.7¢**	23.8¢
Revenue Passenger Miles — millions	**1,651.9**	1,492.1

Canadian Pacific Investments Limited

	1968	1967
Consolidated Net Income	**$ 41.9**	$ 39.9
Operating Income	**$ 15.3**	$ 13.1
Investment Income	**$ 22.5**	$ 20.0
Investment Portfolio — at year end	**$276.0**	$239.0
Investment in Unconsolidated Subsidiaries — at year end	**$189.2**	$176.5
Properties — at year end	**$242.2**	$194.7

All Services

	1968	1967
Employees	**59,661**	63,906
Total Payroll	**$391.0**	$383.6

Board of Directors and Officers

Directors

W. A. Arbuckle, *Chairman of the Canadian Board,*
The Standard Life Assurance Company, Montreal

G. H. Baillie, *Retired Vice-President,*
Canadian Pacific Railway Company, Montreal

G. Maxwell Bell, *Chairman,*
F. P. Publications Limited, Calgary

Sir George Bolton, KCMG, *Chairman,*
Bank of London & South America Limited,
London, England

*George W. Bourke, *Chairman of the Board,*
Sun Life Assurance Company of Canada, Montreal

F. Philippe Brais, CBE, QC, *Chairman of the Board,*
Banque Canadienne Nationale, Montreal

Cyril F. H. Carson, QC, *Partner,*
Law Firm of Tilley, Carson, Findlay & Wedd, Toronto

The Honourable J. V. Clyne,
Chairman of the Board and Chief Executive Officer,
MacMillan Bloedel Limited, Vancouver

*N. R. Crump,
Chairman and Chief Executive Officer,
Canadian Pacific Railway Company, Montreal

*S. M. Gossage, *Vice-President,*
Canadian Pacific Railway Company, Montreal

G. Arnold Hart, MBE,
Chairman and Chief Executive Officer,
Bank of Montreal, Montreal

Allard Jiskoot, *Partner,*
Pierson, Heldring & Pierson,
Amsterdam, The Netherlands

David Kinnear,
Executive Vice-President and Chief Executive Officer,
The T. Eaton Co. Limited, Toronto

*Herbert H. Lank, *Chairman of the Board,*
Du Pont of Canada Limited, Montreal

W. Earle McLaughlin, *Chairman and President,*
The Royal Bank of Canada, Montreal

Lucien G. Rolland, *President and General Manager,*
Rolland Paper Company, Limited, Montreal

A. M. Runciman, *President,*
United Grain Growers Limited, Winnipeg

Howard C. Sheperd, *Retired Chairman,*
First National City Bank, New York

*Ian D. Sinclair, *President,*
Canadian Pacific Railway Company, Montreal

*H. Greville Smith, CBE, *President,*
Canadian International Investment Trust Limited,
Montreal

Harold M. Turner, *Chairman of the Board,*
The Mutual Life Assurance Company of Canada,
Toronto

*H. G. Welsford, MBE,
Retired Chairman of the Board, Honorary Director
Dominion Bridge Company Limited, Montreal

Norman E. Whitmore, *President,*
Whitmores Limited, Regina

Henry S. Wingate,
Chairman of the Board and Chief Officer,
The International Nickel Company of Canada,
Limited

*Member of Executive Committee

Officers

N. R. Crump,
Chairman and Chief Executive Officer,
Montreal

Ian D. Sinclair,
President,
Montreal

S. M. Gossage,
Vice-President,
Montreal

J. C. Anderson,
Vice-President, Industrial Relations,
Montreal

J. M. Bentham,
Vice-President, Purchases and Stores,
Montreal

F. S. Burbidge,
Vice-President and Executive Assistant to the Chairman and the President,
Montreal

D. M. Dunlop,
Vice-President, Operation and Maintenance,
Montreal

D. I. McNeill, QC,
Vice-President, Special Duties,
Montreal

J. M. Roberts,
Vice-President, Marketing and Sales,
Montreal

F. A. Rutherford,
Vice-President and Comptroller,
Montreal

W. J. Stenason,
Vice-President, Company Services,
Montreal

G. J. van den Berg,
Vice-President, Finance,
Montreal

J. A. Wright, QC,
Vice-President, Law,
Montreal

J. N. Fraine,
Senior Regional Vice-President, Pacific Region,
Vancouver

G. E. Benoit,
Vice-President, Atlantic Region,
Montreal

K. Campbell,
Vice-President, Prairie Region,
Winnipeg

L. R. Smith,
Vice-President, Eastern Region,
Toronto

D. E. Sloan,
Treasurer,
Montreal

T. F. Turner,
Secretary,
Montreal

Stock Transfer Agents

Bank of Montreal Trust Company,
2 Wall Street, New York

The Royal Trust Company
1648 Hollis Street, Halifax, N.S.
1 King Street, Saint John, N.B.
630 Dorchester Boulevard West, Montreal
119 Adelaide Street W., Toronto
287 Broadway, Winnipeg
101 McCallum Hill Building, Regina
606 - 7th Avenue S.W., Calgary
P.O. Box 2031, Vancouver

Deputy Secretary,
8 Waterloo Place, London SW1, England

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng.
Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng.
Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and
London, Eng. Stock Exchanges

For more information, shareholders should write to:
T. F. Turner, Secretary,
Canadian Pacific Railway Company,
Montreal 101, Canada.

The CP Look

A new corporate communications program for Canadian Pacific multi-modal transportation services was announced last June. The main object of the program is to match a new look with the Company's new performance and widened horizons. A symbol has been adopted which combines a triangle, suggesting motion or direction, a segment of a circle suggesting global activities and a portion of a square suggesting stability. Each unit of the Company's transportation complex will use the symbol, thus identifying it as part of the Canadian Pacific family, but each will be individually distinguished by color and name. From locomotives to letterheads, from aircraft to advertising, every visual element of Canadian Pacific will soon be displaying the distinctive new CP sign.

CP Rail

One of the aims of CP Rail is to transform the challenge presented by the National Transportation Act into an opportunity for growth in its operations, through the creation of new techniques and concepts in the movement of goods by rail.

Progress was made in 1968 with the wider application of new pricing techniques for the development and growth of CP Rail's markets. Multiple car rates were introduced to encourage large transcontinental movements of liquefied petroleum gas from Alberta to New England. Alberta sulphur producers took advantage of a reduction in the rail rate for shippers who consolidated sulphur traffic into train load lots for movement to export markets through Pacific coast terminals.

The principle of reduced rates for the handling of volume movements in unit trains, first applied to chemical traffic in 1967, was further developed in 1968. In October CP Rail signed a 15-year contract with Kaiser Coal Ltd. for the movement of 45.7 million long tons of coal from a mine in the Crowsnest area to a deep water port under construction at Roberts Bank, B.C., for export to Japan. With the signing by Kaiser of a contract with Japanese steel mills for an additional 6 million tons over a three-year period, a substantial increase in the size of this movement is anticipated.

Plans for the efficient and economical handling of this traffic include a specially designed unit train system which will be one of the most advanced rail operations in North America when it commences late in 1969.

CP Rail strengthened its market planning system in 1968. Programs directed towards specific industries are now under way which will assist in improving total distribution systems and increase the participation of CP Rail in the transportation markets of these industries.

During 1968 there were 256 new manufacturing, warehousing and distributing operations located on or near CP Rail tracks. A further 351 industries expanded or relocated their facilities adjacent to the Company's lines. To serve 146 industries with new trackage or extensions, 85 miles of track were constructed.

In seeking to match service to the needs of shippers CP Rail is continuing to acquire new freight equipment and to modify existing rolling stock for specialized functions.

During the year 600 high capacity covered hoppers were purchased and long term leases signed for 100 tank-type covered hoppers uniquely designed for air pressure unloading of dry bulk granulated products. Also acquired were 150 mechanical refrigerator cars, each with a capacity for 70 tons of perishable goods, and 50 flat cars for handling poles. The fleet of multi-level cars increased by 83 during 1968 and 57 box cars to be used in the transportation of automobile parts were placed in service. Modifications were made to 250 40-foot box cars to convert them to 50-foot cars with larger doors, for shippers who require the extra length for the efficient transportation of products such as lumber and plywood.

New motive power added in 1968 — eight 3,000-horsepower diesel locomotives — incorporates a completely new design of truck and truck suspension that contributes greatly to improved performance.

An order was placed by the Company for 9 double-deck commuter cars which will enter CP Rail's Montreal suburban passenger service in the summer of 1969. The air-conditioned cars have been specifically designed to handle high density commuter traffic, seating passengers on two levels to combine increased capacity with maximum utility and comfort.

Track improvements involved the laying of 222 miles of new rail and 106 miles of relay rail. Of the new rail laid, 93 miles were of continuous welded rail of 1,440-foot lengths and 109 miles were of rail welded into 78-foot lengths. Continuous welded rail, which has an estimated life 40% longer than that of standard length rail, is an important feature of the Company's long range track modernization program. By reducing the number of rail joints a corresponding reduction is effected in the wearing down of rail ends, the damaging of ties, the displacement of ballast, and the wear on trucks, wheels and axles, thus lowering maintenance costs.

To achieve further increases in the efficiency of track maintenance operations, the consolidation and mechanization of track maintenance forces was progressed. Trucks were purchased to give track forces greater mobility and range, and power tools to give them greater capability. Among other benefits, the reorganization of work makes it possible in many instances for track men to live in towns rather than in the isolation of a trackside dwelling.

To cope with the large increase in rail freight movement forecast for Western Canada in the next decade, CP Rail started construction during 1968 on a $14 million

Above — New CP Rail markings cross the Canadian Rockies, following first application to freight equipment at Angus Shops, Montreal.

expansion of its Alyth Railway Yard in Calgary. It will be one of the most advanced freight classification yards in North America, employing a process computer to control electronically the movement of cars. The computer will set the switches to put each car into its correct track, control the retarding machines so that the cars will join up with a minimum impact, keep the inventory of what is on each track at any time and prepare the lists for outgoing trains. Automatic car identification will be used to obtain greater accuracy in car selection for routing. When completed in 1971, the yard will have nearly double its present holding and sorting capacity.

Construction continued on adjoining one-spot and light repair buildings for the maintenance of freight cars at St. Luc Yard near Montreal; completion is expected by April, 1969. By concentrating the light repair of cars indoors at central locations, greater efficiency can be achieved and cars kept out of service for shorter periods. Plans are progressing for similar facilities at Sudbury, Ontario.

Another phase of CP Rail's improvement program is the installation of centralized traffic control, by which the operation of signals and switches over a territory is centralized and controlled from a single location permitting trains to move at greater speeds with increased safety. Centralized traffic control was installed on 310 miles of main track in 1968 bringing the total mileage in operation at year end to 1971 miles.

In the field of labour relations CP Rail has successfully concluded settlements with three unions. The first of these was signed July 1, 1968 with the Brotherhood of Locomotive Firemen and Enginemen. The contract, providing for wage increases, improved vacations and other fringe benefits, runs to August 31, 1970. When the full increases are in effect their estimated annual cost to the Company will be just over $1 million.

Agreement with the non-operating unions was reached on December 23, calling for a two-year contract with wage increases of 6.5% January 1, 1969, and 6.5% January 1, 1970, based on 1969 rates. In addition, the settlement provided for improved annual vacations, nine general holidays instead of eight and improved health and welfare benefits, including an obligation for CP Rail to assume the full cost of premiums for such benefits instead of fifty percent. The estimated annual cost of the full increases provided for in this settlement is $20.4 million.

Negotiations with the shopcraft unions resulted in a Memorandum of Settlement being signed on January 17, 1969 for a 2-year contract providing a 6.5% increase on January 1, 1969 and a 6.5% increase on January 1, 1970 based on 1969 rates. In addition, the skill differential now paid will be increased to 15¢, from 10¢, per hour on July 1, 1969 and to 20¢ per hour a year later. The settlement also provides for the same fringe benefits granted to

Upper Left — New CP Ships colours highlight Empress of Canada at Liverpool, England.

Upper Right — Model of Le Baron motor hotel at Trois Rivières, Que., to be opened in the Fall of 1969 by CP Hotels.

Above — The speed of modern telecommunications is symbolized by close-up photo of CP Telecommunications Broadband exchange equipment at Montreal.

non-operating employees. It is estimated that the full increases provided for in the new contract will cost an additional $8.2 million annually.

Negotiations are currently in progress with the Brotherhood of Railroad Trainmen, representing some 5,600 employees. A settlement was reached in December with the non-operating and shopcraft unions providing for revised job security benefits including provision for benefits to mitigate the adverse effects on employees resulting from operational, organizational or technical changes introduced by the Company. The cost of such benefits will now be charged to the Job Security Fund.

Costing regulations — the rules which under the recent amendments to the Railway Act the Canadian Transport Commission will follow in determining, amongst other things, whether passenger train and branch line services are uneconomic and may be abandoned or curtailed — were the subject of formal hearings before the Commission during the year. The Commission has not yet issued its decision and until it does so the applications which the Company has filed for abandonment of uneconomic services will not be heard.

CP Ships

The decision was made in 1968 to move into complete containerization for CP Ships' Atlantic cargo operations. A $20 million order was placed for the construction of three 16,000-ton cellular containerships to CP Ships' own design specifications and a major investment will be made in new port facilities at Quebec City. The ships will commence operations in 1970, carrying initially 700 containers each on a year-round weekly schedule between London, Rotterdam and Quebec. The three vessels will have significantly more cargo handling capacity than the eleven freighters presently operated and, compared with conventional ships, will reduce the transit time for trans-Atlantic cargo by up to seven days. Meanwhile, two 6,000-ton containerships with a capacity of 135 containers each will be chartered in 1969.

The growth of CP Bermuda's ocean fleet continued during the year with the delivery and entry into service of two 28,000-ton carriers, the "H. R. MacMillan" and "J. V. Clyne". Both these are designed for the efficient handling of forest products and bulk commodities and are under long term charter to Canadian Transport Company Limited. A third ship in this series, the "N. R. Crump", is scheduled for delivery in 1969. All three vessels feature a special hull design and deck cranes to permit fast loading and unloading. Other additions to the fleet in 1969 will be the "Pacific Logger", a 16,000-ton log carrier, and the "T. Akasaka", a 58,000-ton bulk carrier.

A $33 million order was also placed for the construction of two 250,000-ton tankers. Among the largest in the world, these vessels will be delivered in 1970 and 1971 and operated under charter to Gulf Oil Corporation.

The "Empress" vessels operated 26 North Atlantic voyages and 13 cruises during 1968. In 1969 the vessels will continue to provide the only regularly-scheduled passenger liner service

Above — New design double-deck, air-conditioned commuter cars to be introduced by CP Rail in Montreal area this year.

between the United Kingdom and Canada and will offer an expanded cruise program. Intense efforts are under way to effect further improvement in financial results of the "Empress" passenger vessels.

Smith Transport, CP Express, CP Transport

The trucking operations of Canadian Pacific — among the largest in North America — made significant gains in 1968.

Smith Transport, Limited continued to grow profitably. Equipment purchased to handle expanding operations included 20 highway diesel tractors, 75 city trucks and 125 highway trailers. Work continued on modernizing the Smith terminal in Toronto.

Applications were made by Smithsons Holdings Limited during the year to the appropriate Government authorities for approval to acquire complete ownership of several subsidiary trucking companies operating within and between the provinces of Ontario and Quebec. Final approval has been granted on some of these applications.

Highland Transport Company Limited, a subsidiary reactivated in 1967 to handle trailer load traffic between major cities in southern and western Ontario, is now operating with 80 trailers.

CP Express continued its activities in the land transport of import-export container traffic during the year and will become increasingly involved in this type of operation in the near future. CP Express has been designated as the organization within Canadian Pacific responsible for the land movement of ocean-going containers.

Two modern express terminals, in Montreal and Toronto, were nearing completion by the end of the year while a third, at Preston, Ontario was put into operation. Incorporating the latest in automated merchandise handling systems, the facilities are designed to secure a more efficient operation and result in speedier dispatch of shipments.

CP Transport, which operates throughout Western Canada, expanded further into bulk and heavy haulage traffic and added substantially to its equipment for these services.

CP Telecommunications

Advances in telecommunication technology continue to open up new areas for service. The use of computers in the industry, for example, is of increasing importance and in 1968 CP Telecommunications negotiated the lease of a computer for message switching. This computer will be installed at Montreal in late 1969 and will go into service early in 1970 handling a country-wide system for the Department of Transport involving air traffic control and operations. Its use by others with similar communication requirements is being actively developed.

Effective integration of communications and data processing systems is another growth situation to which the response of CP Telecommunications has been development, jointly with CN, of "Broadband Exchange Service", providing high-speed data transmission. "Broadband" was inaugurated late in 1967 and demand for the service has exceeded expectation.

To keep pace with the expansion in its

Above — Artist's conception of new Quebec City terminal for CP Ships Canada-England-Continent containership service to begin this Spring.

business, CP Telecommunications opened a new telecommunications centre in Calgary late in 1968 and construction is under way on a centre in Vancouver. A start will also be made in 1969 to equip the jointly owned CP-CN microwave system between Toronto and Windsor for general communications use in addition to its present television capacity.

A reorganization of CP Telecommunications' management is currently underway whereby the number of administrative units is being halved.

A program to streamline the telegraph facilities and services of CP Telecommunications was initiated during the year with the elimination of duplicate telegraph service with Canadian National on a reciprocal basis. The realignment provides full telegram service for both companies from a single office in each community affected. Duplication of service was eliminated at 71 locations during 1968; three remaining offices — Toronto, Winnipeg and Montreal — are to be consolidated in 1969.

CP Air

In 1968 CP Air inaugurated the first air link between Canada and Greece. The tri-weekly service began in September, operating from Eastern Canada as an extension of the Airline's Southern European service. The operation of a second daily transcontinental flight across Canada commenced in February, servicing Calgary and Edmonton on alternate days and increasing the service to Vancouver, Winnipeg, Toronto and Montreal. The frequency of CP Air's South Pacific service to Australia was doubled during the year with the introduction of weekly flights from Vancouver to Sydney.

With the signing of a bilateral air agreement between the Canadian Government and the Government of Panama, CP Air was awarded the rights to include Panama

Above — Artist's view of one of CP Rail's specially designed 100-car unit trains which will begin hauling coal from British Columbia mines to Roberts Bank superport south of Vancouver this year.

Above — CP Transport, Smith Transport and CP
Express trucks exhibit new colours and multimark.

City in its South American route. It is anticipated that service will commence in 1969.

For the first time in its history CP Air carried more than a million passengers, reaching 1,036,000 in 1968. On the North Atlantic route, which benefited from the inauguration of service to Athens and from new lower group and excursion fares, the traffic increase was considerably greater than that of the airline industry in general. The attraction of the Olympic Games in Mexico, added to the increasing popularity of that country as a holiday spot, resulted in a substantial increase in the number of travellers flying CP Air's Eastern Canada to Mexico City route.

Service to the Orient and Hawaii recorded increased patronage but due to increased competition it was not as great as had been expected. Traffic volume on the Vancouver-San Francisco service remained at the level of 1967, while the Polar route to Europe recorded a decrease with the loss of the competitive fare for London traffic via Amsterdam. Within Canada, traffic showed a major increase with the introduction of the second daily transcontinental flight.

Several new lower group and excursion fares were introduced during the year, particularly on the Orient and North Atlantic services. Within Canada, standby fares at 50% of economy class fares were offered for the first time to senior citizens and youths under twenty-two years of age. At the same time fares on all Canadian services were increased approximately 10%.

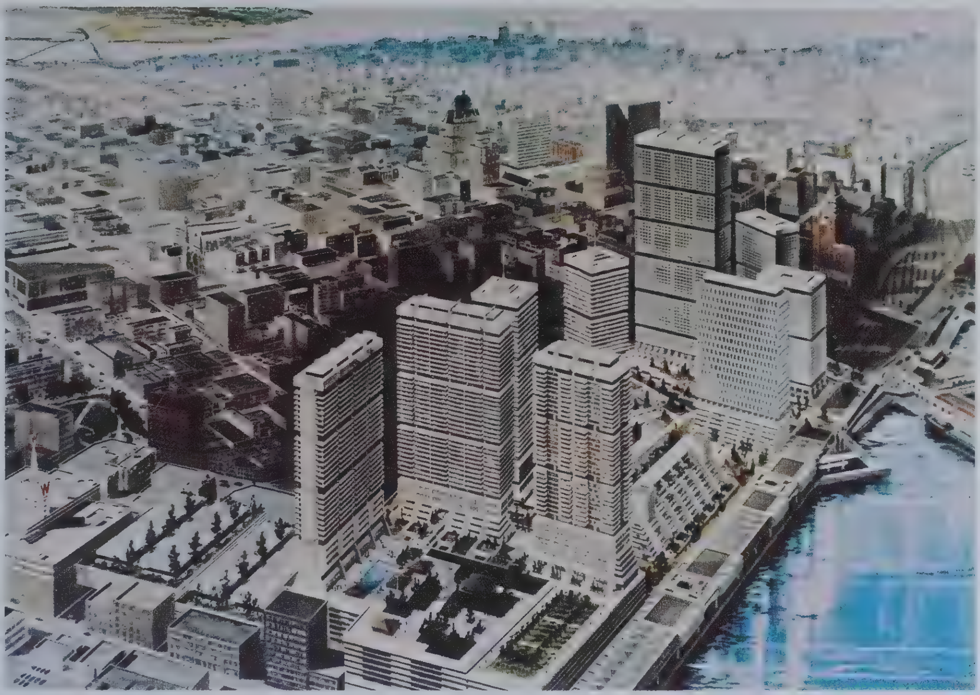
CP Air continued its program of fleet expansion and modernization during the year, to meet present and future equipment requirements. The Company took delivery in 1968 of four DC-8-63 "Spacemaster" aircraft. This jet is an enlarged version of the standard DC-8, with a seating capacity for 199 passengers. "Spacemasters" are currently operating on CP Air's Orient, Hawaii and North Atlantic services. The Company also took delivery during 1968 of five Boeing 737-200 medium range, twin jet aircraft with a capacity for 107 economy class passengers. Two more 737-200's were received in March, 1969. At present, these modern aircraft are used on the British Columbia-Yukon and Western Canada to California services. This Spring they will be introduced on a number of the transcontinental flights. An order has also been placed for two Boeing 727-100 aircraft for delivery in 1970, and three delivery positions are still being held for the supersonic airliner now under development in the United States.

At the year end CP Air was operating fifteen jet and eight propeller aircraft. It is expected that all the propeller aircraft will be phased out of service during 1969 and by the end of the year an all-jet fleet will be in operation.

Construction of CP Air's operations centre at Vancouver International Airport is nearing completion. This modern facility, the largest of its type in Canada, has been designed to accommodate anticipated expansion and will meet the maintenance and operating requirements of the Airline for many years.

Plans have been formulated for greater participation in the important trans-Atlantic charter market. A DC-8-63 "Spacemaster" aircraft, specially outfitted to carry 240 passengers will be employed in the operation and will be available to groups on a split charter basis.

Under the provisions of the Canadian Government transcontinental aviation policy which was restated in 1967, CP Air was authorized to increase its services to provide 25% of the total transcontinental capacity by 1970. The first step in implementation of this policy came in February, 1968 when a second daily service was inaugurated. Three additional transcontinental flights have been authorized for 1969 which will bring the Airline's share of transcontinental capacity to approximately 20%. With five transcontinental flights, it will be possible to offer improved services



Above — Artist's conception of Project 200 city core development at Vancouver, B.C., in which Canadian Pacific Investments has a major interest.

Land, sea and air services of CP Rail, CP Ships, CP Air and CP Hotels show global extent of Canadian Pacific's systems for movement.

including non-stop flights between Vancouver and Toronto and Calgary and Toronto. The Airline has agreed to relinquish the Okanagan, Cariboo and Sandspit services within the British Columbia district for assignment to other carriers in accordance with Government policy.

CP Hotels

Canadian Pacific Hotels Limited, a subsidiary of Canadian Pacific Investments Limited, announced plans during the year for the expansion of its participation in the growing motor hotel field. The 102-room Le Baron motor hotel, at Trois Rivières, Quebec, to be operated under lease, is scheduled to open in the Fall of 1969. This is the first of similar projects that are being actively considered. Consideration is also being given to the possibilities of operating hotels in centres in Canada not now served by CP Hotels, and in Mexico.

Renovation and modernization of a number of hotels continued during the year. Extensive work was carried out at the Empress in Victoria, the Royal York in Toronto, and Le Château Frontenac in Quebec City. Improvements were made to guest rooms at Banff Springs Hotel and Chateau Lake Louise and elevator modernization was begun at the latter. The lobby restaurants and cocktail facilities of Le Château Champlain, damaged by fire late in 1967, were fully restored and re-opened in May, 1968.

Canadian Pacific Investments Limited

The year was a particularly active one for the operating subsidiaries, with demand strong for lumber and oil and gas and opportunities ample for real estate development. The investment portfolio grew as a result of major purchases of common stock of MacMillan Bloedel Limited, The Great Lakes Paper Company Limited, Rio Algom Mines Limited, Union Carbide Canada Limited and common and preferred stock of Trans-Canada Pipe Lines Limited. In addition, the investment in Cominco Ltd. was increased, bringing the Company's ownership in that subsidiary to 53.2%.

Canadian Pacific Oil and Gas Limited carried out in 1968 its largest geophysical exploration program to date. Exploratory drilling was continued during the year, resulting in oil discoveries in central Alberta and in gas discoveries in northeastern British Columbia and southern Alberta. A total of 2.8 million acres of mineral rights was acquired, some in the Northwest Territories, in northeastern British Columbia, in southern Alberta and 320,000 acres in Lake Erie.

Panarctic Oils Ltd., in which Canadian Pacific Oil and Gas and Cominco Ltd. each hold a 9% interest, completed the first year of a three-year exploration program. The first test well is expected to be drilled on Melville Island in the Arctic, after evaluation of geophysical data thus far obtained.

Exploration and development of coal-bearing properties owned in southeastern British Columbia advanced. More than 40 million long tons of near-surface metallurgical grade coal have been proven. Preliminary negotiations for a long term sales contract with Japanese interests were commenced.

Pacific Logging Company Limited integrated into its operations the properties purchased in 1967 from Georgia-Pacific International Corporation. Good markets for logs and lumber, reflecting increased residential construction in Canada and the United States, absorbed the year's sharply higher production.

Marathon Realty pushed ahead with its many real estate projects. Development continued of industrial parks already established and plans for others are under consideration. Strathcona House, a 220-suite apartment building in Edmonton was open for partial occupancy in December. A 72-unit townhouse development in Vancouver is scheduled for completion in mid-1969. Langara Gardens, a high-rise and garden apartment complex also in Vancouver, was well advanced. Following the opening of the Husky Tower, construction has commenced on the shopping malls and commercial areas of Palliser Square, the large development in downtown Calgary. When completed, the Square will also have a transportation centre, twin theatres and a 30-storey office building. Construction is scheduled to begin in the Spring of 1969 on a large office building and other commercial space in "Canada Square", part of "Project 200", the 23-acre development along the waterfront in Vancouver. Plans for Metro Centre in downtown Toronto were announced jointly by Canadian Pacific and Canadian National in December. The project embraces a communications tower, a transportation centre, office buildings, hotels, and apartments and will be the largest of its kind in North America. Construction is expected to begin before the end of 1969.

Cominco Ltd. brought to completion during 1968 a number of important projects. The mercury mine at Pinchi Lake, B.C. was completed ahead of schedule and production from it, as well as from a new copper mine on Vancouver Island, began at mid-year. A new open-pit lead and zinc mine on property owned by Pine Point Mines Limited was sufficiently developed by the year end for test production to begin. It is expected to be working at full capacity early in 1969.

Customers and Staff

The Directors wish to record their appreciation to customers for their patronage and to pay tribute to officers and employees for their contribution during the year.

For the Directors,

Ian D. Sinclair

President

N R Crump

Chairman and Chief
Executive Officer

Montreal, March 10, 1969

Canadian Pacific Railway Company

The bold, new look of CP Rail on diesel freight locomotive.

Income from Railway and Miscellaneous Sources

Income from railway and miscellaneous sources, other than Canadian Pacific Investments Limited, amounted, after fixed charges, to $39.8 million, an increase of $5.0 million over 1967. After Preference dividends, the income per share of Ordinary stock was $2.54, compared with $2.19 in the previous year. Income received from Canadian Pacific Investments Limited amounted to $21.5 million, an increase of $1.4 million.

Dividends declared on Preference stock totalled 4%, the same as in 1967. Dividends of 2% each were paid on August 1, 1968 and February 1, 1969.

Dividends on Ordinary stock totalled $3.00 per share, compared with $2.90 in the previous year. Two dividends of $1.50 were paid, one on August 1, 1968 and one on February 1, 1969, each including $0.75 per share which flowed through from Canadian Pacific Investments Limited.

Railway Earnings

Net railway earnings for the year amounted to $41.3 million, an increase of $1.6 million compared with 1967. The ratio of net earnings to railway revenues was 7.3%, an improvement over the 7.1% of the previous year, and the rate of return on the net investment in railway property was up from 3.1% to 3.2%.

Railway revenues, at $562.3 million, were $1.6 million higher than in 1967. These included $38.7 million of "normal payment" received from the Government of Canada, representing a decrease of $5.7 million from 1967 in accordance with provisions of the National Transportation Act.

Railway expenses for 1968 amounted to $521.1 million, the same as in 1967. Higher wage rates added more than $18 million to expenses, while reductions were achieved through the operation of fewer passenger trains, improvement in freight train operating efficiency and lower maintenance expenditures.

Freight revenue was at an all-time high. This was achieved despite labour disputes in a number of important traffic-generating industries, a decline in wheat movements, and the shift of less-than-carload revenues out of railway freight.

Major revenue increases were reported for fertilizers — mainly potash to meet the growing demand from the United States and other export markets; iron and steel products, because of heavy demand for pipeline projects in Western Canada and the U.S. midwest; autos, trucks and parts; other mine products; other petroleum products; and woodpulp. Principal declines were in wheat, which dropped significantly owing to lower sales to Russia and the adverse effects of a wet harvest and strikes by seaway operators and grain handlers. Besides wheat, other grain was down and so were pulpwood, iron ore and agricultural implements.

To meet rising wage and material costs and to offset to some extent the decrease in Government payments, several selective rate increases were applied during 1968. Class and commodity rates on traffic moving within Canada, excluding traffic to, from and within the Maritimes, were increased by 2% to 5% on May 1.

An interim increase of 3% in freight rates on traffic moving between the United States and Canada was authorized by the Interstate Commerce Commission on June 24. This was increased to approximately 5%, effective November 28.

Agreed charge contracts are declining in importance as more effective forms of pricing now available under the National Transportation Act are introduced. In consequence the number of such contracts in effect was down to 996 at the end of the year, from 1179 at the end of 1967.

Passenger revenue, including sleeping, parlour, dining and buffet car revenue, at $19.4 million, was $5.3 million, or 21%, lower than in 1967 when the "Expo Limited" and the Confederation train were operated. Some upward adjustments were made in fares during the year, while in selected areas some fares were lowered on a trial basis.

Mail revenue increased 2%. Increased revenue from additional mail contracts was partly offset by the mail strike in mid-summer and also by a revision effective November 1 in postage rates which encourages movement by air rather than rail of first class package traffic.

Express revenue was up 8% over 1967. The increase is attributable to the impact of the new rate structure introduced in the Fall of 1967 and reductions effected in the expenses of the Express Company.

Railway Expenses

Road and Equipment Maintenance expenses were $2.1 million, or 1%, lower than in 1967. The decrease in snow removal expenses amounted to $1.1 million. There were no changes in depreciation rates during the year.

Transportation expenses were down $1.3 million, or 1%, and the ratio to revenues improved from 36.3% in 1967 to 36.0% in 1968. Savings were effected through reduction of passenger train service, notably the "Expo Limited", and through improved operating efficiency. Although the volume of freight traffic carried was slightly below that of 1967, increases were achieved in the average freight train load, train speed and gross ton miles per freight train hour.

Other Income

Income of the Company from telecommunications, railway-owned steamship operations and from other sources and investments, excluding Canadian Pacific Investments Limited, amounted to $20.4 million after provision for income taxes of $6.5 million. The 1967 amount of such income was $13.8 million, after income taxes of $4.2 million.

Net earnings from operations given below are in all cases before income taxes.

Telecommunications

Net earnings from telecommunication services were $5.1 million, compared with $4.1 million in 1967. Gross revenues rose 11% reflecting a continued high rate of growth in "Telex" and "Broadband Exchange Service" as well as a moderate increase in private wire services. The strike in the postal services during July and August had the effect of reversing a downward trend in revenue from public use of telegram message services. Expenses were up 8%, mainly due to increases in wage rates, material prices and relocation costs and severance allowances to employees affected by the closing of telegraph offices in certain areas.

Steamships

Operation of steamships owned by the Company resulted in net earnings of $297,000, compared with a loss of $748,000 in 1967.

The loss from operation of the "Empress" vessels was reduced owing to increased passenger traffic on the North Atlantic, adjustments in fares and lowered costs due to sterling devaluation. Results of Company-owned cargo ships, "Beaverash" and "Beaverelm" were less favourable because of development expenses incurred in preparing for full containerization, and low cargo handling productivity and high cost in the Company's major port in Eastern Canada. The earnings of "Beaverfir", "Beaveroak" and "Beaverpine", owned by Canadian Pacific Steamships, Limited, and the results of charter operations conducted by that subsidiary are not included in the above earnings. Similarly, the earnings of ships owned by Canadian Pacific (Bermuda) Limited are not included.

Coastal steamship operations produced higher earnings than in 1967, mainly from the British Columbia coastal services where revenue increases outpaced rising costs.

Income from Other Sources

Income from other sources of $6.1 million was $3.5 million more than in 1967. Aircraft rentals, which are principally from Canadian Pacific Air Lines, Limited, increased $2.8 million, exchange was up $900,000 and there were smaller increases in gain from sales of temporary investments and income from the insurance fund.

The railway-owned hotels had combined net earnings of $288,000 compared with $108,000 in 1967. The biggest improvement was at the Palliser Hotel in Calgary, where business was good throughout the whole of 1968. The Banff Springs Hotel enjoyed a good tourist trade, but there was less convention business and this adversely affected earnings.

Dividend and Interest Income

Dividend and interest income for the year amounted to $15.4 million, an increase over 1967 of $1.9 million. Dividends from subsidiary companies other than Canadian Pacific Investments Limited decreased $1.1 million. Dividends from Canadian Pacific Air Lines, Limited, at $1.6 million, were $2.5 million less than in the previous year. Dividends from Canadian Pacific Express Company amounted to $213,000, a decrease of $638,000. Dividends from the Soo Line Railroad Company, at $2.7 million, were $1.6 million higher and dividends of $1.7 million from Canadian Pacific Transport Company, Limited were up $495,000.

Increases of $2.2 million in interest on temporary investments, and of $711,000 in mortgage interest accounted for the increase in income from other investments.

Soo Line Railroad Company

Income received from the Soo Line Railroad Company in 1968 totalled $3.6 million, an increase of $1.6 million from 1967. Dividends on Canadian Pacific holdings of Soo Line Common stock were $2.7 million, compared with $1.1 million in 1967. Interest on bonds was virtually the same as in 1967.

Net income of the Soo Line, after fixed and contingent interest charges, showed substantial improvement in 1968, increasing to $6.4 million from $2.8 million in the prior year. Higher freight rates together with larger volume of shipments of chemicals, particularly potash and sulphur, forest products and pipe-line pipe were responsible for greatly increased freight revenues. The impact on expenses of increased wage rates was lessened through reduction in the number of non-operating employees.

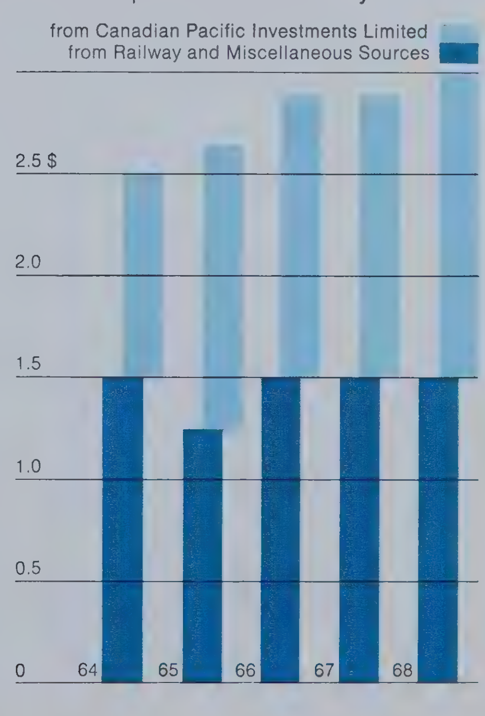
Provision for Impairment of Investment in Subsidiary Companies

The 1968 provision for impairment of investment in subsidiary companies was only $10,000, $1.6 million less than the provision of the previous year. This was mainly due to reversal of previous provision in respect of Smithsons Holdings Limited and to a decrease, as compared with last year, in the provision required for Canadian Pacific Steamships, Limited.

Fixed Charges

Fixed charges, at $21.9 million, were $3.3 million higher than in 1967. Interest on equipment trust certificates was $1.4 million higher due to the issue of Series "S" Equipment Trust Certificates on

Dividends per share on Ordinary Stock



March 1, 1968, and to interest for a full year on Series "R", issued in July, 1967. Interest charges on loans from the Bank of Montreal and the Export-Import Bank accounted for a further $2.2 million of the year's increase, and rent for leased roads was up $600,000. Interest on the debenture stock decreased due to the devaluation of sterling.

New Financing

As of March 1, 1968, Bankers Trust Company, New York, as Trustee, entered into an agreement whereby $20,025,000 principal amount of Equipment Trust Certificates was issued, guaranteed as to principal and interest by the Company. This issue, designated as Series "S", matures on March 1, 1983 and is subject to a sinking fund provision by which 1/15 of the issue is redeemed on each March 1 commencing in 1969. The issue is in United States currency and bears interest at 6.90% per annum. New equipment purchased by the Company at an aggregate cost of approximately $27,394,000 in Canadian funds was sold to the Trustee and is leased to the Company at a rental equal to the sinking fund instalments of principal plus interest on the equipment trust certificates.

After payment of debt maturing during 1968, and purchases and cancellation of debt maturing in later years, the long term debt of the Company at December 31, 1968, including debt maturing within one year, amounted to $171.2 million, a reduction of $28.3 million. The amount of Consolidated Debenture Stock pledged as collateral, at $103.4 million, was $7.3 million less than at the end of 1967.

Retained Income

A charge of $28.2 million was made to Retained Income in 1968 representing the settlement of income tax re-assessments applicable to the years 1962 to 1967 in respect of the subsidiary The Esquimalt and Nanaimo Railway Company. Application of the principle established in the settlement resulted in provision for income tax for 1968 of $543,000, which amount has been deducted in arriving at net proceeds from sales of lands, townsites and other properties.

Principal land sales in 1968 were of timber lands to various lumber and paper companies, including some 2,700 acres to Pacific Logging Company Limited, a wholly-owned subsidiary of Canadian Pacific Investments Limited.

An amount of $15.5 million was transferred to Accumulated Depreciation in respect of the "Empress" vessels. Of this amount $8.1 million was charged to Retained Income and $7.4 million to income taxes deferred in years when capital cost allowances claimed for tax purposes exceeded the depreciation recorded in the books. This transfer reflects a re-appraised value of these ships.

Pensions and Other Benefits

Pension expenses of the Company totalled $35.4 million in 1968, $0.6 million more than in 1967. These included the portion of pension allowances currently borne by the Company, payments in respect of employees covered by the Canada and Quebec pension plans and by the United States Railroad Retirement Act, and contributions of $7.6 million to the Pension Trust Fund. The portion of such contributions not subject to current withdrawal had accumulated with income to $158.1 million at the end of the year.

The number on the pension payroll totalled 21,086 at the end of 1968, compared with 20,735 at the end of 1967.

Payments made by the Company in respect of the employees' health and welfare plan, to the job security fund and for unemployment insurance amounted to $6.4 million for the year.

Directorate

Consequent upon his appointment as a member of the Canadian Federal Cabinet, Mr. James A. Richardson submitted under date of July 5, 1968, his resignation as a Director of the Company which was accepted by the Board of Directors, with regret, at meeting on August 12, 1968.

Mr. A. M. Runciman was appointed a Director to succeed Mr. Richardson.

Stock Holdings

The holdings of the Capital Stock and voting rights at December 31, 1968 were as follows:

	Ordinary		Preference Canadian Dollar		Preference Sterling		Total
	No. of Holdings*	Voting Rights	No. of Holdings*	Voting Rights	No. of Holdings*	Voting Rights	Voting Rights
Canada	40,660	55.87%	5,657	77.88%	631	3.82%	63.17%
United Kingdom and Other British	2,629	13.48	2,213	9.53	3,257	7.14	14.38
United States	15,930	21.77	42	.22	31	.22	15.75
Other Countries	1,116	8.88	96	.76	168	.43	6.70
	60,335	100.00%	8,008	88.39%	4,087	11.61%	100.00%

*Includes only registered holders.

Statement of Income

	1968	1967
Income from Railway and Miscellaneous Sources:		
Railway revenues (page 24)	**$562,344,476**	$560,694,963
Railway expenses (page 24)	**521,084,797**	521,059,161
Net railway earnings	**$ 41,259,679**	$ 39,635,802
Other income (page 25)	**20,440,219**	13,775,130
	$ 61,699,898	$ 53,410,932
Fixed charges (page 25)	**21,919,017**	18,644,979
Income from railway and miscellaneous sources, transferred to retained income	**$ 39,780,881**	$ 34,765,953
Income from Canadian Pacific Investments Limited:		
Net income (being dividends received from Canadian Pacific Investments Limited)	**$ 21,498,684**	$ 20,065,438
Dividends therefrom:		
Ordinary stock — 1968 — $1.50 per share; 1967 — $1.40 per share	**$ 21,498,684**	$ 20,065,438

Statement of Retained Income

	1968	1967
Balance, January 1	**$757,710,845**	$735,505,532
Income from railway and miscellaneous sources	**39,780,881**	34,765,953
Income tax settlement for prior years in respect of a subsidiary, Esquimalt and Nanaimo Railway Company	**Dr 28,223,062**	—
Special transfer to accumulated depreciation – steamships (after income tax of $7,400,000)	**Dr 8,100,000**	—
Reduction in insurance reserve	—	7,135,094
Net proceeds from sales of lands, townsites and other properties (after income tax, 1968 – $542,971, 1967 – Nil)	**2,583,607**	4,525,003
Miscellaneous (net)	**1,993,851**	635,812
	$765,746,122	$782,567,394
Deduct:		
Dividends		
Preference stock — 4%	**$ 3,326,771**	$ 3,357,865
Ordinary stock — $1.50 per share	**21,498,684**	21,498,684
	$ 24,825,455	$ 24,856,549
Balance, December 31	**$740,920,667**	$757,710,845

See Notes to Financial Statements

Balance Sheet, December 31

Assets	1968	1967
Current Assets:		
Cash and temporary investments, at cost (approximates market)	$ 74,801,822	$ 59,821,386
Dividend receivable from Canadian Pacific Investments Limited	10,749,342	10,032,719
Accounts receivable	85,699,846	74,934,056
Material and supplies, at cost or less	38,980,317	39,766,419
	$ 210,231,327	$ 184,554,580
Other Assets:		
Aircraft deposits	$ 645,000	$ 39,940,261
Refundable corporation tax due after one year	422,980	2,596,364
Other deposits	3,571,562	2,745,400
Unamortized discount on long term debt	1,499,223	1,597,469
Other deferred charges	9,712,453	7,048,303
	$ 15,851,218	$ 53,927,797
Insurance Fund, at cost (approximate market 1968 - $5,095,921, 1967 - $4,985,550)	$ 6,186,276	$ 6,019,951
Investments:		
Canadian Pacific Investments Limited, at cost	$ 321,605,780	$ 321,605,780
Canadian Pacific Air Lines, Limited, at cost	22,750,000	22,750,000
Other subsidiary companies (page 26)	116,577,584	106,333,110
Other investments (page 27)	39,005,465	42,585,619
	$ 499,938,829	$ 493,274,509
Properties, at cost (page 27)	$2,617,438,137	$2,552,890,556
Less: Accumulated depreciation (page 27)	1,194,182,594	1,146,810,264
	$1,423,255,543	$1,406,080,292
	$2,155,463,193	$2,143,857,129

See Notes to Financial Statements

Liabilities	1968	1967
Current Liabilities:		
Accounts payable and wages accrued	**$ 85,971,922**	$ 70,450,471
Deposits by affiliated companies (net)	**12,118,056**	16,331,957
Income and other taxes payable	**35,588,128**	5,446,359
Dividends payable	**23,693,431**	22,933,327
Long term debt maturing within one year	**29,246,320**	43,200,764
Other current liabilities	**38,600,396**	28,644,665
	$ 225,218,253	$ 187,007,543
Deferred Liabilities	**$ 6,486,322**	$ 5,939,642
Deferred Income Taxes	**$ 126,300,000**	$ 123,700,000
Insurance Reserve	**$ 6,186,276**	$ 6,019,951
Long Term Debt (page 28)	**$ 141,946,290**	$ 156,309,940
Perpetual Debenture Stock (page 28)	**$ 292,548,888**	$ 292,548,888
Shareholders' Equity:		
Preference stock (page 29)	**$ 90,720,181**	$ 90,964,790
Ordinary stock (page 29)	**358,311,400**	358,311,400
Premium on stock	**85,065,464**	84,820,855
Donations and grants	**81,759,452**	80,523,275
Retained income (page 19)	**740,920,667**	757,710,845
	$1,356,777,164	$1,372,331,165
	$2,155,463,193	$2,143,857,129

F. A. Rutherford, Vice-President and Comptroller

Source and Application of Funds

	1968	1967
Source of Funds		
Net income*	**$ 39,780,881**	$ 34,765,953
Depreciation	**79,955,214**	75,380,263
Deferred income taxes	**10,000,000**	1,700,000
Provision for impairment of investments	**9,754**	1,577,038
Funds from operations	**$129,745,849**	$113,423,254
Sales of other investments	**4,640,906**	3,498,354
Sales of lands and other properties	**2,843,692**	6,765,061
Salvage from retired property	**9,726,363**	11,760,049
Reduction in insurance reserve	**—**	7,135,094
Long term debt	**23,627,000**	45,021,600
Refundable corporation tax	**2,173,384**	958,036
Aircraft deposits	**39,295,261**	(2,884,794)
Sundries (net)	**2,563,077**	4,709,983
Decrease in working capital exclusive of cash and temporary investments	**27,514,399**	(17,905,084)
	$242,129,931	$172,481,553
Application of Funds		
Purchase of investments		
Canadian Pacific Investments Limited	**$ —**	$ 10,785,620
Other securities	**11,314,980**	3,589,384
Retirement of long term debt	**37,990,650**	20,992,141
Additions to properties	**124,795,348**	117,897,308
Dividends declared*	**24,825,455**	24,856,549
Prior years' income tax settlement	**28,223,062**	—
Additions to cash and temporary investments	**14,980,436**	(5,639,449)
	$242,129,931	$172,481,553

*Excluding income of $21,498,684 received from Canadian Pacific Investments Limited and distributed as dividends.

Notes to Financial Statements

Note 1. Owing to the diversity of its interests and the statutory regulation of its railway operations, the Company considers that consolidation is not appropriate and that financial information on its major subsidiaries can best be provided by furnishing their financial statements. Accordingly, financial statements of Canadian Pacific Investments Limited, in which the Company holds 99.97% of the common shares (90.89% of total voting shares), and of Canadian Pacific Air Lines, Limited, which is wholly-owned, are presented on pages 44-48 and 36-39 respectively. The Company's equity in the income of all subsidiaries for 1968 is $45,766,000 (1967 - $46,915,000), of which $29,013,000 (1967 - $27,097,000) is reflected in the income statement of the Company. Its equity in the retained earnings of subsidiaries at December 31, 1968, since date of acquisition, is $157,510,000 (1967 - $140,167,000).

Note 2. Items in foreign currencies have been translated into Canadian dollars at current rates except for properties and related depreciation, investments and debenture and capital stocks, for which historical rates have been used. The historical rates used for debenture stock and preference stock are $4.86⅔ to the £1. and par of exchange in the case of United States dollars. Gains or losses on exchange are included in or charged to other income.

Note 3. In 1968, a further £131,041 of sterling preference stock was converted into Canadian dollar preference stock at the rate of $3 for each £1. held. The excess of the carrying value of the sterling stock over the Canadian par value, amounting to $244,609, was credited to premium on stock. Conversion of this stock, for which application had been made prior to November 13, 1967, had been delayed pending settlement of estates.

Note 4. A question as to the application to the Company's pension plan of the Pension Benefits Standards Act (Canada) has not as yet been settled. Preliminary actuarial reports indicate that if the plan were to be funded under the Act the increased costs associated with such funding would not significantly affect net income.

Note 5. During 1968, the Company settled income tax re-assessments applicable to the years 1962 to 1967 in respect of a subsidiary, the Esquimalt and Nanaimo Railway Company. Accordingly, the amount of $28,223,062, which was paid in January, 1969, has been charged to retained income in 1968. Application of the principle established in the settlement resulted in a 1968 charge for income tax of $542,971, which amount has been deducted from sales of lands, townsites and other properties.

Note 6. An amount of $15,500,000 was transferred from retained income to accumulated depreciation in respect of the "Empress" vessels to reflect a re-appraised value of these ships. Related income tax of $7,400,000 has been charged to deferred income taxes.

Note 7. The Company is contingently liable under a guarantee of a loan of U.S. $9,675,000 by the Export-Import Bank of the United States to Canadian Pacific Air Lines, Limited.

Annual commitments for rent for leased roads amounted to approximately $3,500,000 at December 31, 1968.

Commitments for rent for freight cars leased for varying periods through to 1983 amount to approximately $24,000,000.

Note 8. Figures for 1967 have been restated where necessary to conform with the presentation adopted for 1968.

Auditors' Report to the Shareholders of Canadian Pacific Railway Company

We have examined the balance sheet of Canadian Pacific Railway Company as at December 31, 1968 and the statements of income, retained income and source and application of funds for the year then ended (as shown on pages 19 to 29 inclusive). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants
Montreal, March 7, 1969

Railway Revenues

	1968	1967
Freight	**$479,346,542**	$466,296,632
Passenger	**13,421,720**	16,830,639
Sleeping, dining, parlour car and news service	**8,080,468**	10,438,967
Mail	**2,428,585**	2,387,252
Express	**4,429,204**	4,101,705
Government payments	**38,700,556**	44,359,872
Miscellaneous	**15,937,401**	16,279,896
	$562,344,476	$560,694,963

Railway Expenses

Road maintenance	**$ 85,847,831**	$ 87,352,973
Equipment maintenance	**113,374,789**	113,998,769
Traffic	**16,162,098**	17,195,383
Transportation — railway line	**202,234,347**	203,569,824
Miscellaneous railway operations	**5,537,261**	7,371,322
General	**48,555,588**	46,086,814
Operating expenses	**$471,711,914**	$475,575,085
Equipment rents (net)	**Cr 1,782,854**	Cr 1,034,442
Joint facility rents (net)	**2,101,194**	1,688,348
Railway tax accruals:		
Provision for income taxes	**28,800,000**	25,300,000
Other railway taxes	**20,254,543**	19,530,170
	$521,084,797	$521,059,161

Other Income

	1968	1967
Net earnings from telecommunications	**$ 5,121,780**	$ 4,138,919
Net earnings from steamships	**296,907** Dr	748,197
Income from miscellaneous sources	**6,112,783**	2,593,626
Dividends and interest		
Subsidiary companies other than Canadian Pacific Investments Limited	**$ 8,424,779**	$ 9,511,144
Other investments	**7,023,724**	4,076,676
	$15,448,503	$13,587,820
Adjustment of provision for impairment of investments in subsidiary and 50% owned companies	**Dr $ 9,754**	Dr $ 1,577,038
	$26,970,219	$17,995,130
Provision for income taxes	**6,530,000**	4,220,000
	$20,440,219	$13,775,130

Fixed Charges

	1968	1967
Interest and amortization of discount on long term debt	**$ 9,251,489**	$ 5,836,466
Interest on Perpetual Debenture Stock	**7,592,229**	8,082,147
Other interest	**1,563,467**	1,863,095
Rent for leased roads	**3,511,832**	2,863,271
	$21,919,017	$18,644,979

Investments — Other Subsidiary Companies		*Book Value*
Aroostook Valley Railroad Company	Capital Stock — 2,574 shares	$ 458,988
Canadian Pacific (Bermuda) Limited	†Ordinary Stock — 5,571,745 shares	15,744,476
	†5% Cumulative Redeemable Preferred Stock — 3,327,040 shares	9,995,706
	†6% Cumulative Redeemable Preferred Stock — 1,637,950 shares	4,209,585
Canadian Pacific Express Company	†Capital Stock — 42,500 shares	4,250,000
Canadian Pacific Steamships, Limited	†Capital Stock — 244,586 shares	5,316,418
Canadian Pacific Transport Company, Limited	†Capital Stock — 60,000 shares	6,000,000
Central Terminal Railway Company	†Capital Stock — 20,000 shares	1,500,000
Commandant Properties, Limited	†Capital Stock — 10,000 shares	345,676
Sault Ste. Marie Bridge Company	Capital Stock — 5,000 shares	1
	Advances	191,886
Smith Transport, Limited	†5% Non-Cumulative Redeemable Preference Stock — 480,000 shares	12,000,000
Smithsons Holdings Limited	†Common Stock — 10,000 shares	11,489,762
	†5% Non-Cumulative Redeemable Preference Stock — 5,100 shares	510,000
	Advances	900,000
Soo Line Railroad Company	Common Stock — 704,953 shares	28,269,860
	*Duluth, South Shore and Atlantic Railroad Company	
	†4% First Mortgage Income Bonds	3,968,911
	*Minneapolis, St. Paul & Sault Ste. Marie Railroad Company	
	4% General Mortgage Income Bonds	3,319,616
	*Wisconsin Central Railroad Company	
	4% First Mortgage Bonds	1,268,584
	4½% General Mortgage Income Bonds	6,268,456
Miscellaneous		569,659
	At cost, less provision for impairment	$116,577,584

†Denotes complete ownership.
*Obligation and liability assumed by Soo Line Railroad Company.

Other Investments

	Book Value
Northern Alberta Railways Company	
5% First Mortgage Bonds	$16,700,000
Capital Stock — 86,400 shares	8,640,000
The Toronto, Hamilton and Buffalo Railway Company	
Capital Stock — 14,695 shares	512,026
The Toronto Terminals Railway Company	
5% First Mortgage Bonds	9,983,700
Capital Stock — 2,500 shares	250,000
Advances	210,000
Deferred Payments and Mortgages on Properties	2,023,099
Miscellaneous	686,640
At cost, less provision for impairment	$39,005,465

Properties

	Balance December 31, 1967	*Additions*	*Retirements and Transfers*	*Balance December 31, 1968*
Railway*	$2,280,648,876	$ 69,712,813	$57,254,643	$2,293,107,046
Telecommunications	115,644,522	8,840,019	1,824,406	122,660,135
Aircraft	54,606,637	40,818,689	336,420	95,088,906
Steamships	63,460,465	113,489	560,909	63,013,045
Hotels	25,548,923	208,405	176,009	25,581,319
Other properties	12,981,133	5,101,933	95,380	17,987,686
	$2,552,890,556	$124,795,348	$60,247,767	$2,617,438,137

*Includes Securities — Leased Railway Companies, at cost: December 31, 1967 $57,871,482; December 31, 1968 $55,861,643.

Accumulated Depreciation

	Balance December 31, 1967	*Provided from Income*	*Net Retirements and Transfers*	*Balance December 31, 1968*
Railway	$1,030,086,170	$ 63,003,215	$45,362,351	$1,047,727,034
Telecommunications	51,769,536	5,724,892	1,708,260	55,786,168
Aircraft	16,272,854	7,694,978	336,420	23,631,412
Steamships	24,353,238	2,431,292	(14,918,053)	41,702,583
Hotels	21,690,755	615,832	28,743	22,277,844
Other properties	2,637,711	485,005	65,163	3,057,553
	$1,146,810,264	$ 79,955,214	$32,582,884*	$1,194,182,594

*After credits for salvage of $9,726,363.

Long Term Debt

	Rate	Date of Issue	Date of Maturity	Principal Outstanding 1968	1967
*Collateral Trust Bonds:					
†Convertible Seventeen Year	4%	Dec. 1, 1952	Dec. 1, 1969	**$ 22,169,000**	$ 25,185,000
†Convertible Twenty Year	3⅛%	Apr. 1, 1950	Apr. 1, 1970	**363,000**	374,500
Eighteen Year	3¾%	Nov. 15, 1954	Nov. 15, 1972	**19,566,000**	20,492,000
Thirty Year	3½%	Nov. 1, 1944	Nov. 1, 1974	**7,623,750**	7,695,000
Twenty-Five Year	5%	Feb. 1, 1958	Feb. 1, 1983	**37,561,000**	39,726,000
				$ 87,282,750	$ 93,472,500
Equipment Trust Certificates:			*Serially to:*		
Series "M"	3¼%	Jan. 2, 1954	Jan. 2, 1969	**$ —**	$ 1,801,440
Series "O"	4½%	June 2, 1958	June 1, 1968	**—**	2,000,000
Series "P"	5%	Jan. 6, 1966	Jan. 6, 1981	**21,417,120**	23,418,720
Series "R"	6⅜%	July 17, 1967	July 17, 1982	**23,201,880**	27,021,600
Series "S"	6.90%	Mar. 1, 1968	Mar. 1, 1983	**21,290,860**	—
				$ 65,909,860	$ 54,241,760
Promissory Note	6%	July 21, 1966	1968	**$ —**	$ 33,796,444
Term Loan	7%	Dec. 27, 1967	1968-1973	**18,000,000**	18,000,000
				$ 18,000,000	$ 51,796,444
				$171,192,610	$199,510,704
Less: Maturing within one year				**29,246,320**	43,200,764
				$141,946,290	$156,309,940

*Secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount, $103,428,300.

†Conversion privilege terminated.

Debenture Stock

	Sterling	United States Currency	Canadian Currency	Total
Perpetual 4% Consolidated Debenture Stock:				
Issued	£46,756,621	$72,837,500	$95,590,800	$395,977,188
Less: Pledged as collateral	—	7,837,500	95,590,800	103,428,300
	£46,756,621	$65,000,000	—	$292,548,888

Capital Stock

Preference Stock — 4% non-cumulative:

Authorized:	An amount not exceeding one-half the aggregate amount of Ordinary Stock outstanding.	
Issued:	£ 3,273,080 — in amounts of £1 and multiples thereof	$ 15,928,990
	$74,791,191 — in units of $3 and multiples thereof	74,791,191
		$ 90,720,181

Voting rights: Each £5 or $15 of stock entitles the holder to one vote.

Ordinary Stock — $25 par value:

Authorized:	20,000,000 shares	
Issued:	14,332,456 shares	$358,311,400

Voting rights: Each share entitles the holder to one vote.

Capital Appropriations for 1969

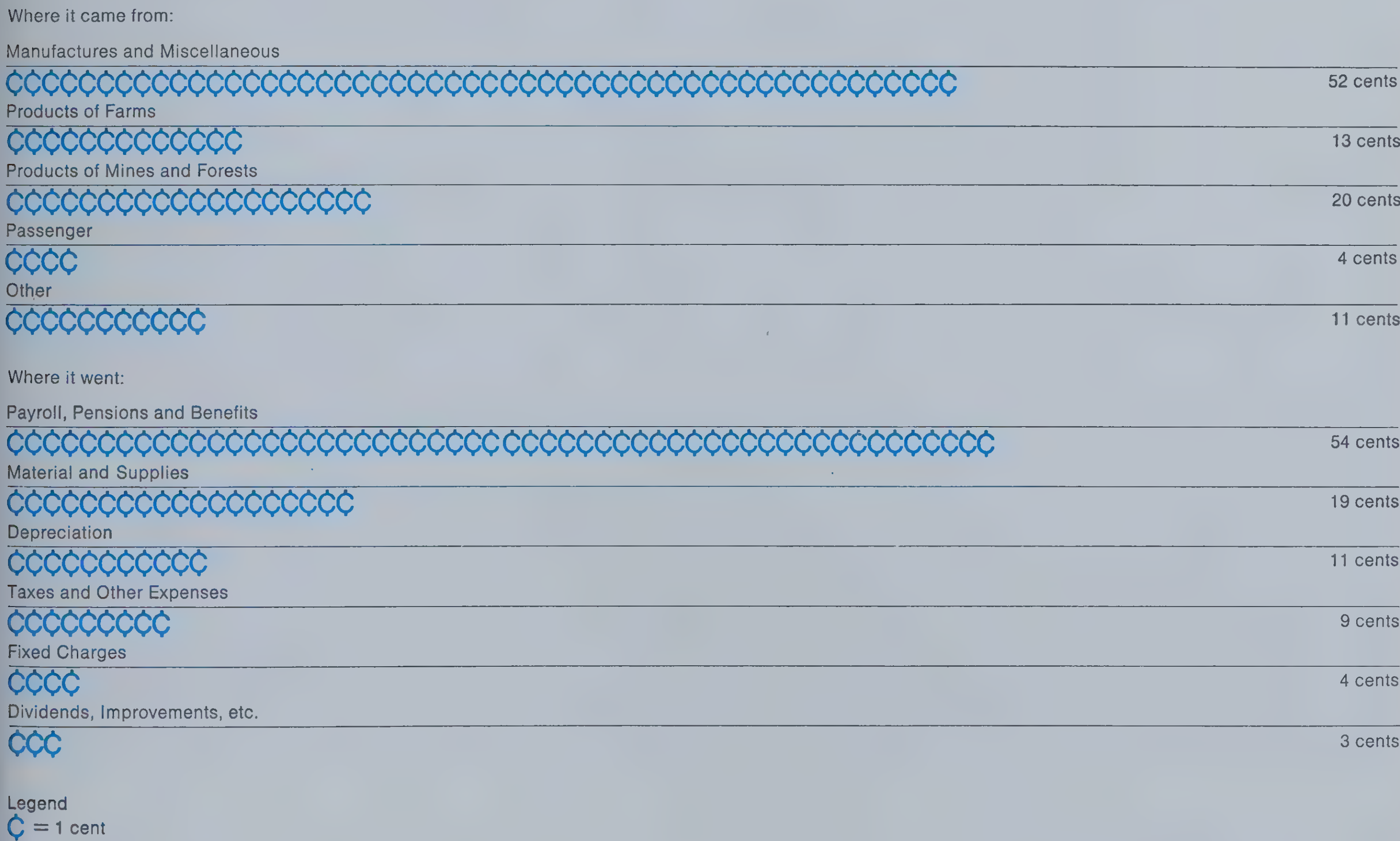
Approved to March 10, 1969

Station and Roadway Buildings		$ 1,894,215
Shops and Enginehouses		2,416,900
Bridges, Tunnels and Culverts		565,260
Existing Trackage		
Ties	$ 7,376,830	
Rails	12,675,600	
Other track material	530,150	
Ballast	2,097,430	
Signals	1,813,604	
		24,493,614
New Trackage		17,460,800
Other Road Facilities		5,044,375
Rolling Stock		
Locomotives	$ 16,022,530	
Car and work equipment	32,917,218	
		48,939,748
Shop Machinery		624,155
Highway Vehicles		977,502
Telecommunications		10,001,548
Steamships		10,000
Hotels		634,423
Other Properties		335,000
		$113,397,540

Freight Traffic		Year 1968	Year 1967	Increase or *Decrease* Amount or Number	Percent
Tons — revenue freight					
Products of agriculture		**11,805,272**	14,489,963	*2,684,691*	*18.5*
Animals and animal products		**420,183**	430,864	*10,681*	*2.5*
Products of mines		**21,690,852**	21,298,876	391,976	1.8
Products of forests		**6,816,817**	7,038,807	*221,990*	*3.2*
Manufactures and miscellaneous		**27,060,829**	25,519,833	1,540,996	6.0
Less than carload		**199,456**	283,650	*84,194*	*29.7*
Total		**67,993,409**	69,061,993	*1,068,584*	*1.5*
Ton Miles — revenue freight		**34,582,187,000**	35,380,579,000	*798,392,000*	*2.3*
Ton Miles — all freight		**35,356,347,000**	36,029,243,000	*672,896,000*	*1.9*
Averages					
Revenue per ton	$	**7.05**	6.75	0.30	4.4
Revenue per ton mile	¢	**1.39**	1.32	0.07	5.3
Tons per train — all freight		**1540.2**	1444.9	95.3	6.6
Tons per loaded car — all freight		**39.8**	39.7	0.1	0.3
Loaded cars per train		**38.7**	36.3	2.4	6.6
Total cars per train		**63.3**	60.4	2.9	4.8
Miles hauled — revenue freight		**508.6**	512.3	*3.7*	*0.7*
Gross ton miles per train hour		**69,862**	65,207	4,655	7.1
Train speed — miles per hour		**22.2**	22.0	0.2	0.9
Passenger Traffic					
Revenue passengers carried		**5,287,885**	6,138,757	*850,872*	*13.9*
Revenue passenger miles		**494,212,000**	624,729,000	*130,517,000*	*20.9*
Averages					
Revenue per passenger	$	**2.54**	2.74	*0.20*	*7.3*
Revenue per passenger mile	¢	**2.72**	2.69	0.03	1.1
Miles carried — revenue passengers		**93.5**	101.8	*8.3*	*8.2*
Payroll					
Charged operating expenses	$	**262,452,724**	262,821,156	*368,432*	*0.1*
Percent to railway revenues		**46.67**	46.87	*0.20*	*0.4*
Percent to operating expenses		**55.64**	55.26	0.38	0.7

	Year 1968	Year 1967	Increase or *Decrease* Amount or Number	Percent
Average miles of road operated	**16,652.0**	16,641.0	11.0	0.1
Train miles				
Freight service	**22,956,110**	24,934,782	*1,978,672*	*7.9*
Passenger service	**5,821,965**	6,888,218	*1,066,253*	*15.5*
Diesel Unit Miles				
Freight service	**60,582,525**	60,182,112	400,413	0.7
Passenger service	**7,585,039**	10,030,765	*2,445,726*	*24.4*
Switching service — road and yard	**10,493,464**	10,606,818	*113,354*	*1.1*
Car Miles				
Loaded freight	**887,956,209**	906,732,363	*18,776,154*	*2.1*
Total freight	**1,446,227,495**	1,500,141,196	*53,913,701*	*3.6*
Total passenger	**43,678,992**	62,017,746	*18,338,754*	*29.6*
Gross ton miles — freight service	**72,134,397,000**	73,809,191,000	*1,674,794,000*	*2.3*

The Railway Dollar 1968



Ten-Year Summary for the years 1959 to 1968

All dollars in thousands, except amounts per share

Year	Railway Revenues	Railway Expenses	Net Earnings	Ratio to Revenues	Other Income	Income before Fixed Charges	Fixed Charges	Income from Railway and Miscellaneous Sources	Preference Dividends	Income from Railway and Miscellaneous Sources after Preference Dividends			Income from Canadian Pacific Investments Limited	
										Total	*Per Ordinary Share*	*Dividends per Ordinary Share*	*Total*	*Dividends per Ordinary Share*
1959	$477,806	$441,760	$36,046	7.5%	$12,678	$48,724	$17,435	$31,289	$3,029	$28,260	$1.97	$1.50		
1960	457,106	423,431	33,675	7.4	12,402	46,077	17,106	28,971	3,096	25,875	1.81	1.50		
1961	465,490	427,839	37,651	8.1	11,717	49,368	16,907	32,461	3,204	29,257	2.04	1.50		
1962	453,169	424,191	28,978	6.4	20,460	49,438	17,080	32,358	3,429	28,929	2.02	1.50		
1963	477,198	441,936	35,262	7.4	21,402	56,664	16,538	40,126	3,407	36,719	2.56	1.50		
1964	510,145	466,680	43,465	8.5	16,789	60,254	16,184	44,070	3,390	40,680	2.83	1.50	$14,332	$1.00
1965	518,035	477,795	40,240	7.8	17,580	57,820	16,344	41,476	3,401	38,075	2.65	1.25	20,065	1.40
1966	553,830	503,610	50,220	9.1	18,037	68,257	19,951	48,306	3,390	44,916	3.13	1.50	20,065	1.40
1967	560,695	521,059	39,636	7.1	13,775	53,411	18,645	34,766	3,358	31,408	2.19	1.50	20,065	1.40
1968	562,345	521,085	41,260	7.3	20,440	61,700	21,919	39,781	3,327	36,454	2.54	1.50	21,499	1.50

Canadian Pacific Air Lines, Limited

Red, white and orange multimark on Boeing 737 jet highlights the new look of CP Air.

Board of Directors and Officers

Directors

Charles R. Bronfman,
President,
The House of Seagram Ltd., Montreal

N. R. Crump,
Chairman and Chief Executive Officer,
Canadian Pacific Railway Company, Montreal

J. C. Gilmer,
President and Chief Executive Officer,
Canadian Pacific Air Lines, Limited, Vancouver

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Senior Partner,
Hamilton, Torrance, Stinson, Campbell, Nobbs and Woods, Toronto

Allard Jiskoot,
Partner,
Pierson, Heldring & Pierson,
Amsterdam, The Netherlands

Hugh A. Martin,
President,
Western Construction & Engineering Research Ltd.,
Vancouver

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Morgan, Ostiguy & Hudon, Inc., Montreal

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Vice-President, Marketing and Sales,
Canadian Pacific Railway Company, Montreal

George E. Sharpe,
President,
Sharpe's Limited, Winnipeg

Ian D. Sinclair,
President,
Canadian Pacific Railway Company, Montreal

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Chairman

J. C. Gilmer,
President and Chief Executive Officer

Ian D. Sinclair,
Vice-President

H. D. Cameron,
Vice-President, International Affairs

I. A. Gray,
Vice-President, Administration

C. F. O'Brien,
Vice-President and Comptroller

R. B. Phillips,
Vice-President, Operations

H. B. Renwick,
Vice-President, Marketing and Sales

J. W. H. Crawford,
Treasurer

T. F. Turner,
Secretary

Executive Offices,
1281 West Georgia Street,
Vancouver 5, Canada

In 1968 the operating revenues of CP Air were $106.7 million compared with $95.2 million in 1967, an increase of 12%. Operating expenses, however, rose 13% to $102.5 million. Net income of $2.4 million in 1968 was $858,000 below that of 1967. The decline can be attributed to a continuation of the rising cost spiral which adversely affected profits throughout the industry for the past several years.

Passenger revenues increased 12% to $89.1 million, a substantial part of the increase being attributable to the second transcontinental service. However, the increase in traffic on this service was substantially less than the increase in capacity. The multi-stop nature of the Airline's two transcontinental flights prohibits penetration of the long-haul market, and the irregular route pattern of the second flight resulting in alternate day service to Calgary and Edmonton inhibits satisfactory load factors.

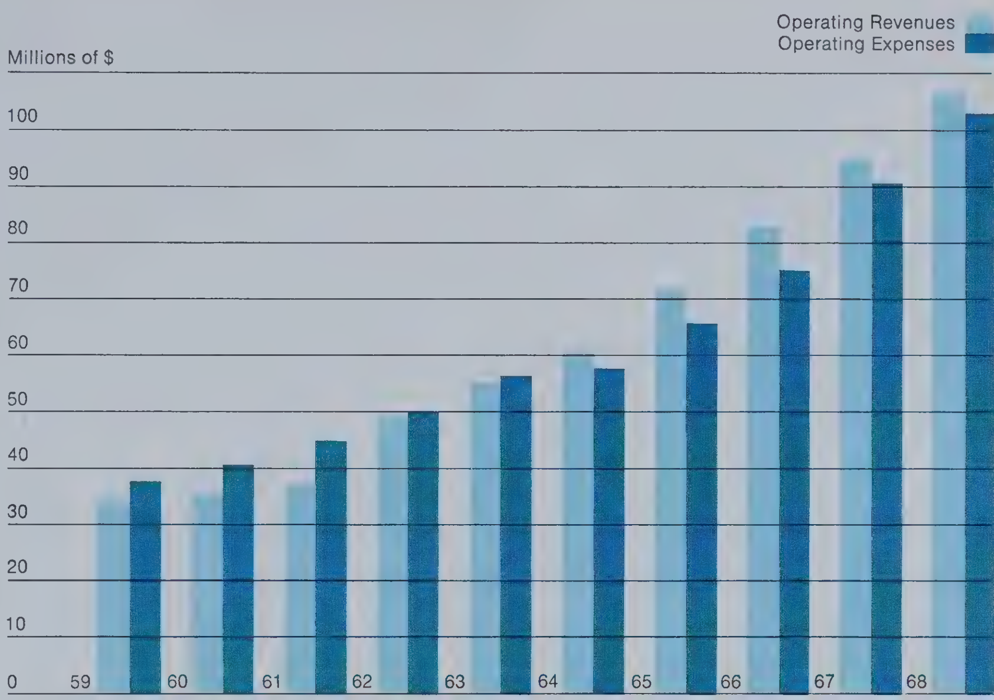
International revenue increased but at a much slower rate than in 1967. This condition is considered to be temporary and due to unusual developments during 1968 such as the international monetary crises, the unofficial "stay-at-home" policy of the United States, and unstable political situations throughout the world.

Air cargo revenue increased 31% to $9.3 million, mainly as a result of cargo charter flights on the Orient route, significant growth on the North Atlantic services, and the additional daily transcontinental flight.

Air mail revenue, while adversely affected by a strike of Canadian postal workers, nevertheless increased slightly to $6.5 million.

The increase in expenses, in addition to the portion associated directly with the increased level of operations, is attributable in the main to substantial wage settlements and a general increase in the cost of materials and purchased services. Additional expenses also resulted from the introduction of the new Boeing 737 aircraft.

Canadian Pacific Air Lines, Limited



At December 31, 1968, CP Air employed 4,410 people compared with 4,004 at the previous year end. The additional staff was made necessary primarily by the increase in traffic volume and staff requirements related to the new aircraft received during the year. Total expenditures in 1968 for salaries, wages and employee benefits were $33.7 million, 19% more than the 1967 total of $28.3 million.

Revenue passenger miles reached a new high in 1968 of 1.7 billion. The passenger load factor decreased to 50.4% from 56.6% in 1967 as available seat miles increased 24% to 3.3 billion, reflecting the introduction of the larger DC-8-63 aircraft and increased frequency of service on some routes. Available ton miles increased 23% to 472 million while revenue ton miles rose 14% to 210 million, giving an overall load factor of 44.4% as compared with 47.8% in 1967.

The average revenue per passenger mile showed some improvement in 1968, increasing to 5.41¢ from 5.38¢ in 1967, attributable to a fare increase within Canada in April.

The receipt of additional equipment permitted a reduction in average daily utilization of jet aircraft to slightly over 12 hours from the 1967 figure which exceeded 14 hours.

Balance Sheet, December 31

Assets	1968	1967
Current Assets:		
Cash	$ 1,214,671	$ 1,191,433
Deposits with Canadian Pacific Railway Company	3,041,096	14,721,713
Accounts receivable	12,870,197	9,820,924
Income taxes recoverable	1,917,038	—
Materials and supplies	2,753,348	2,565,995
Prepaid expenses	550,136	512,201
	$22,346,486	$28,812,266
Other Assets:		
Deposits on aircraft purchases	$ 2,591,918	$ 3,210,732
Refundable corporation tax	—	390,780
	$ 2,591,918	$ 3,601,512
Investments, at cost	$ 99,750	$ 286,500
Properties, at cost:		
Land, buildings and improvements	$ 4,401,655	$ 3,821,077
Aircraft and related support equipment	45,897,549	21,435,622
	$50,299,204	$25,256,699
Less: Accumulated depreciation	17,517,529	15,580,593
	$32,781,675	$ 9,676,106
Construction work in progress	13,290,864	2,225,861
	$46,072,539	$11,901,967
	$71,110,693	$44,602,245

Approved on behalf of the Board:
J. C. Gilmer, Director
Ian D. Sinclair, Director

See Notes to Financial Statements

Liabilities	1968	1967
Current Liabilities:		
Accounts payable and accrued charges	**$19,513,971**	$14,454,417
Accounts payable to affiliated companies	**3,666,463**	574,176
Unearned transportation revenue	**6,457,740**	5,130,148
Income taxes payable	**—**	578,376
	$29,638,174	$20,737,117
Deferred Income Taxes	**$ 4,822,841**	$ 368,000
Long Term Debt	**$12,361,877**	$ —
Shareholders' Equity		
Capital Stock		
Authorized		
2,000,000 5% Cumulative Redeemable Preference shares of $5 par value		
4,000,000 Ordinary shares of no par value		
Issued and fully paid		
1,950,000 Preference shares	**$ 9,750,000**	$ 9,750,000
2,600,000 Ordinary shares	**13,000,000**	13,000,000
	$22,750,000	$22,750,000
Retained Income	**1,537,801**	747,128
	$24,287,801	$23,497,128
	$71,110,693	$44,602,245

Statement of Income

	1968	1967
Operating Revenues		
Passenger	**$ 89,054,443**	$ 79,649,255
Cargo	**9,302,424**	7,097,387
Mail	**6,513,533**	6,418,147
Charter	**267,443**	554,961
Other	**1,560,141**	1,505,082
	$106,697,984	$ 95,224,832
Operating Expenses		
Flying operations	**$ 37,136,777**	$ 32,855,729
Maintenance	**12,628,482**	12,356,910
Passenger service	**11,005,931**	9,427,716
Aircraft and traffic servicing	**12,786,808**	10,581,627
Sales and promotion	**21,961,043**	19,754,892
General and administrative	**5,038,397**	4,140,489
Depreciation	**1,978,924**	1,940,532
Development	**—**	55,200
	$102,536,362	$ 91,113,095
Net Operating Income	**$ 4,161,622**	$ 4,111,737
Non-operating Income and (Expense)		
Investment income	**781,800**	1,427,797
Interest on long term debt	**(63,542)**	—
	$ 4,879,880	$ 5,539,534
Provision for income taxes	**2,528,600**	2,330,000
Net Income	**$ 2,351,280**	$ 3,209,534

Statement of Retained Income

	1968	1967
Balance, January 1	**$ 747,128**	$ 1,430,512
Net income for the year	**2,351,280**	3,209,534
Gain on disposal of fixed assets	**23,768**	185,207
	$ 3,122,176	$ 4,825,253
Deduct:		
Dividends on preference shares	**1,584,375**	4,078,125
Balance, December 31	**$ 1,537,801**	$ 747,128

See Notes to Financial Statements

Statement of Source and Application of Funds

Source of Funds	**1968**	1967
Net income	**$ 2,351,280**	$ 3,209,534
Depreciation	**1,978,924**	1,940,532
Development	**—**	55,200
Deferred income taxes	**4,454,841**	368,000
Funds from operations	**$ 8,785,045**	$ 5,573,266
Refundable corporation tax	**390,780**	(82,170)
Realization of investments	**186,750**	37,925
Proceeds from disposal of properties	**60,616**	224,565
Proceeds from long term borrowings	**12,361,877**	—
Decrease in working capital	**15,366,837**	7,087,418
	$37,151,905	$12,841,004
Application of Funds		
Deposits on aircraft purchases	**$ 2,591,918**	$ 2,886,732
Additions to properties	**32,975,612**	5,876,147
Dividends declared	**1,584,375**	4,078,125
	$37,151,905	$12,841,004

Notes to Financial Statements

1. *Investment income* — Investment income includes interest totalling $640,906 (1967 $1,168,417) earned on deposits with Canadian Pacific Railway Company.

2. *Preference shares* — Cumulative dividends totalling $1,584,375 were paid on Preference Shares, encompassing the period from October 1, 1965 to December 31, 1968. In 1967, dividends of $4,078,125 were paid, representing arrears from January 1, 1957 to September 30, 1965.

3. *Long term debt* — Long term debt as at December 31, 1968 consists of the following:
a) A loan from Export-Import Bank of The United States under a U.S. $9,675,000 credit established to assist in financing the purchase of additional aircraft and related equipment. Interest at 6% per annum is payable half-yearly on the outstanding principal amount, such principal to be repayable semi-annually in equal instalments commencing December 15, 1972 and ending December 15, 1975.
Borrowings as at December 31, 1968, including $2,591,905 received after the year end and included in accounts receivable $ 7,361,877
b) A loan from Canadian Pacific Securities Limited, the principal amount to be repaid August 20, 1971. Interest is payable monthly at current market rates, but in any case at not less than 7% 5,000,000
$12,361,877

4. *Contingent liability* — Notes discounted with banks, in respect of tickets purchased under the time payment plan, total $4,661,109 (1967 $3,760,594).

5. *Commitments* — Four aircraft are on order for delivery 1969 to 1970, at a cost of $21,020,000, of which $2,591,918 had been paid by year end.
The Company's new operations centre in Vancouver, expected to be completed in May, 1969, is estimated to cost approximately $24,000,000, of which $13,290,864 had been paid at the year end.
Long term contracts for the lease of aircraft for varying periods up to 1980 total approximately $99,350,000.

6. *Income taxes* — The Company proposes to claim maximum capital cost allowances in the current taxation year resulting in a loss for income tax purposes. A portion of this loss will be utilized to offset the previous year's taxable income thereby permitting full recovery of 1967 Canadian income taxes. The remainder of the loss amounting to approximately $2,000,000 will be available to reduce taxable income in future years.

7. *Restatement of comparative figures* — Figures for 1967 have been restated where necessary to conform with the presentation adopted for 1968.

Auditors' Report to the Shareholders of Canadian Pacific Air Lines, Limited

We have examined the balance sheet of Canadian Pacific Air Lines, Limited as at December 31, 1968 and the statements of income, retained income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants
February 25, 1969, Vancouver, Canada

Ten-Year Summary for the years 1959 to 1968

Figures in thousands, except cents and percentages

Year	Operating Revenues	Operating Expenses	Net Operating Income (Loss)	Revenue per Available Ton Mile*	Operating Cost per Available Ton Mile*	Available Ton Miles*	Revenue Ton Miles	Overall Load Factor*	Available Seat Miles	Revenue Passenger Miles	Passenger Load Factor	Revenue Passengers Carried
1959	$ 33,986	$ 38,322	$(4,336)	34.7¢	39.5¢	96,877	53,101	54.8%	801,218	457,705	57.1%	303
1960	36,152	41,317	(5,165)	24.4	28.3	146,177	61,910	42.4	937,848	541,723	57.8	343
1961	38,301	44,795	(6,494)	20.8	24.6	181,861	68,341	37.6	1,175,933	603,481	51.3	381
1962	48,642	49,848	(1,206)	22.1	23.1	215,668	88,537	41.1	1,510,659	799,111	52.9	462
1963	56,141	56,752	(611)	21.5	22.1	257,240	102,858	40.0	1,814,382	909,408	50.1	498
1964	61,494	57,927	3,567	23.7	22.7	255,285	114,304	44.8	1,777,434	983,066	55.3	541
1965	72,007	65,595	6,412	25.4	23.5	279,112	134,668	48.2	1,957,802	1,144,936	58.5	631
1966	82,638	74,679	7,959	25.5	23.4	319,572	154,780	48.4	2,229,564	1,280,008	57.4	739
1967	95,225	91,113	4,112	24.4	23.8	383,459	183,285	47.8	2,635,596	1,492,093	56.6	886
1968	106,698	102,536	4,162	22.3	21.7	472,303	209,617	44.4	3,279,169	1,651,908	50.4	1,036

*Data for 1959 not comparable with other years due to varying types of equipment and operation.

Canadian Pacific Investments Limited

A drilling rig, using a slim-hole drilling technique, explores Canadian Pacific Oil and Gas holdings east of the Mackenzie River delta in the Canadian Arctic.

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Chairman of the Canadian Board,
The Standard Life Assurance Company, Montreal

*A. M. Campbell,
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Sun Life Assurance Company of Canada, Montreal

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Canadian Pacific Railway Company, Montreal

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Cominco Ltd., Montreal

S. E. Nixon,
Executive Vice-President,
Dominion Securities Corporation Limited, Montreal

The Hon. Duff Roblin, P.C.,
Executive Vice-President,
Canadian Pacific Investments Limited, Montreal

*Ian D. Sinclair,
President,
Canadian Pacific Railway Company, Montreal

*F. V. Stone,
President and Chief Executive Officer,
Canadian Pacific Investments Limited, Montreal

G. J. van den Berg,
Vice-President, Finance,
Canadian Pacific Railway Company, Montreal

*Member of Executive Committee

Officers

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Chairman of the Company,
Montreal

F. V. Stone,
President and Chief Executive Officer,
Montreal

Ian D. Sinclair,
Vice-President,
Montreal

The Hon. Duff Roblin, P.C.,
Executive Vice-President,
Montreal

G. J. van den Berg,
Vice-President, Investments,
Montreal

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Montreal Trust Company, Montreal, Toronto
Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Consolidated net income, including equity interest in the 1968 income retained by non-consolidated subsidiaries, amounted to $41.9 million, compared with $39.9 million in the previous year. After dividends of $4.7 million on the Preferred stock, income per share of Common stock amounted to 74¢. This compares with 78¢ per Common share in 1967, after Preference dividends relating to only the last two months of that year. Dividends declared on the Common shares totalled $21.5 million, an increase of $1.4 million over the prior year.

Income from operations totalled $15.3 million, $2.2 million more than in 1967. Of the increase, $1.9 million was attributable to timberlands and related facilities, $1.2 million to oil, gas and other mineral operations, $139,000 to real estate and related operations. Hotels and restaurants accounted for a decrease of $1.1 million, while financing operations were $27,000 lower.

Timberland results showed a marked improvement because of both volume increases in log production and higher prices for logs. Sales and operating revenue nearly doubled during the year, reflecting an increase in log sales from 116 million board feet in 1967 to 242 million board feet in 1968. The strike which had closed the Slocan lumber mill in 1967 was settled in May, enabling that operation to share over the remainder of the year in favourable markets for lumber.

Oil and gas net income was at a record level. Gross operating revenues, at $25.3 million, showed an increase of $3.9 million, resulting equally from company production and from royalty and other farm-out arrangements. Net daily production from company operated and royalty properties rose to 14,300 barrels of crude oil, including natural gas liquids, from 13,400 barrels in the previous year; to 125.5 million cubic feet of natural gas, from 106.2 million cubic feet the year before; and to 235 long tons of sulphur, an increase of 72 tons over 1967.

Income from real estate and related operations benefited from a growth in earnings from commercial and industrial properties but this was partly offset by higher costs arising out of the increased development activities of Marathon. There was also a reduction in earnings from agricultural lands and grain elevators, related to the decline in wheat exports.

The drop in earnings of Canadian Pacific Hotels Limited was attributable to the sharp fall-off in tourist and general travel in Eastern Canada from the levels of 1967, when Expo 67 and Centennial celebrations were major attractions. Gross operating revenues decreased $3.2 million, due mainly to less tourist and convention business at Le Château Champlain and Le Château Frontenac.

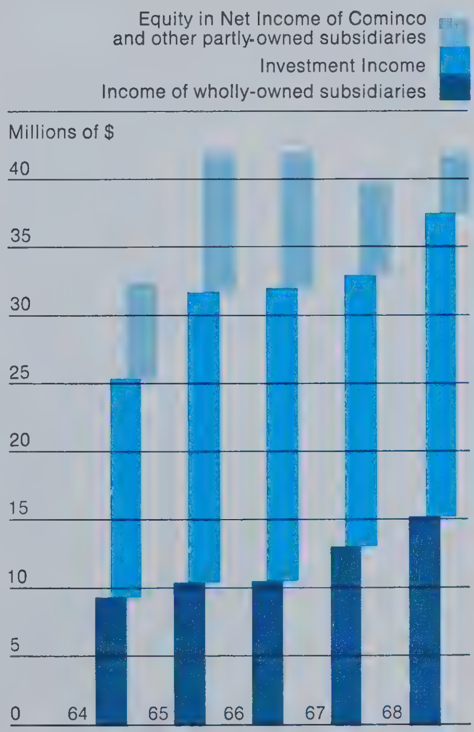
Investment income for the year, at $22.5 million, was $2.5 million higher than in 1967, largely the reflection of investment of the proceeds from the Preferred share issue of November, 1967. Dividends received from Cominco Ltd. were $685,000 lower than in 1967.

Net earnings of Cominco Ltd. amounted to $32.3 million in 1968, compared with $38.5 million in the year before. Taxation of Pine Point Mines Limited which became effective March 1, 1968, and increased transportation charges on the products of that venture, together with lower profits from chemicals and fertilizers, as a result of falling prices, account for the decrease.

Details of the holdings in the Investment Portfolio of the Company are shown on page 48. The investment in common stocks amounted to $231.7 million at year end, an increase of $29.4 million over 1967. These stocks are heavily weighted toward resource industries and were selected with a view to complementing other operations of the Company. Their distribution among industries is as follows:

Pulp and paper	36.7%
Pipe lines	22.2
Oil and gas	15.5
Metals and mining	11.4
Chemicals	7.1
Financial	6.5
Miscellaneous	0.6
	100.0%

Consolidated Net Income



Statement of Consolidated Income

		1968		1967
Oil, Gas and Other Minerals:				
Gross operating revenue	**$25,335,023**		$21,415,877	
Operating expenses	**$ 4,060,669**		$ 3,278,468	
Depreciation and depletion	**5,036,671**		3,404,230	
Income taxes	**4,387,947**		4,124,499	
	$13,485,287	**$11,849,736**	$10,807,197	$10,608,680
Timberlands and Related Facilities:				
Sales and operating revenue	**$22,138,298**		$11,455,576	
Operating expenses	**$13,601,679**		$ 8,074,566	
Depletion, depreciation and amortization	**2,480,726**		2,317,104	
Income taxes	**3,505,167**		438,425	
	$19,587,572	**2,550,726**	$10,830,095	625,481
Real Estate and Related Operations:				
Gross rentals and other income	**$ 9,499,931**		$ 6,867,991	
Operating expenses	**$ 6,494,977**		$ 4,272,897	
Depreciation	**631,124**		407,730	
Income taxes	**1,053,328**		1,005,839	
	$ 8,179,429	**1,320,502**	$ 5,686,466	1,181,525
Hotels and Restaurants:				
Gross operating revenue	**$37,841,321**		$41,088,177	
Operating expenses	**$36,212,434**		$37,499,047	
Depreciation	**2,711,988**		2,394,172	
Income taxes	**(540,855)**		613,800	
	$38,383,567	**(542,246)**	$40,507,019	581,158
Financing:				
Gross operating revenue	**$ 6,352,216**		$ 3,943,236	
Operating expenses	**$ 6,192,086**		$ 3,634,962	
Income taxes	**16,515**		137,700	
	$ 6,208,601	**143,615**	$ 3,772,662	170,574
Investment Income:				
Dividends —				
Cominco Ltd.	**$12,334,821**		$13,019,426	
Other partly-owned subsidiary companies	**209,642**		115,736	
Dividends and interest from portfolio and other investments	**12,487,022**		7,934,464	
	$25,031,485		$21,069,626	
Expenses	**$ 666,167**		$ 226,801	
Income taxes	**1,849,798**		874,687	
	$ 2,515,965	**22,515,520**	$ 1,101,488	19,968,138
Consolidated income before the following		**$37,837,853**		$33,135,556
Equity in net income of Cominco Ltd. and other partly-owned subsidiary companies (in excess of dividends included above)		**4,064,146**		6,741,747
Consolidated Net Income		**$41,901,999**		$39,877,303

See Notes to Financial Statements

Statement of Consolidated Retained Income

	1968	1967
Balance, January 1	**$111,059,209**	$ 90,129,042
Add:		
Net income for the year	**$ 41,901,999**	$ 39,877,303
Equity in recovery of income taxes for prior years of Cominco Ltd.	**—**	990,270
Equity in gain on sale of hydro-electric plant of Cominco Ltd.	**1,330,250**	—
Net gain on sales of securities	**531,846**	4,032,364
Miscellaneous (net)	**137,860**	(32,362)
	$ 43,901,955	$ 44,867,575
	$154,961,164	$134,996,617
Deduct:		
Expenses in connection with the issue of Preferred Shares, Series A (less income tax $402,967)	**$ —**	$ 3,871,970
Prior years' income taxes	**2,858,861**	—
Dividends		
Preferred stock	**4,749,323**	—
Common stock	**21,504,584**	20,065,438
	$ 29,112,768	$ 23,937,408
Balance, December 31	**$125,848,396**	$111,059,209

See Notes to Financial Statements

Notes to Financial Statements

Note 1 — Basis of Consolidation
The consolidated financial statements include the accounts of all wholly-owned subsidiary companies, namely Canadian Pacific Oil and Gas Limited, Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited and Canadian Pacific Securities Limited. In the case of wholly-owned subsidiaries incorporated by Canadian Pacific Railway Company (CPR) prior to their acquisition by Canadian Pacific Investments Limited (CPI), the 'pooling of interests' concept has been applied and consequently consolidated retained income includes the retained income of such companies at the dates of their acquisition.

The statement of consolidated income is designed to present the revenues and expenses of the various areas of the companies' operations. To this end, certain operating revenues include amounts charged to other consolidated entities and reflected in expenses elsewhere in the statement. Consolidated net income is not affected by this practice.

Note 2 — Investments in Partly-Owned Subsidiary Companies
The financial statements of Cominco Ltd. and other partly-owned subsidiaries are not consolidated because of the existence of substantial minority interests. However, the equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

CPI acquired 8,412,500 shares of Cominco Ltd. (51.35%) from CPR in December, 1963 at CPR's average cost of $2.03 per share. Subsequently CPI adjusted the carrying value of these shares to the book value of its equity in the underlying assets as shown by the consolidated financial statements of Cominco Ltd. at December 31, 1963 ($11.75 per share). The excess of the value thus established over the acquisition cost, amounting to $81,800,314, was designated as paid-in surplus. Since 1962 CPI has acquired 467,161 shares of Cominco Ltd. from other sources at market prices and recorded these acquisitions at cost. At December 31, 1968 53.18% was owned.

An analysis of investments in partly-owned subsidiaries is shown below:

	Investments in Cominco Ltd.	Investments in Other partly-owned subsidiaries
	(in thousands)	
Shares —		
Cost of acquisition	$ 31,216	$3,085
Adjustment of carrying value as described above	81,800	—
Equity in net income since acquisition, less dividends received	38,807	(50)
Equity in other increases in retained income	11,937	—
	$163,760	$3,035
6¼ % Notes due May 1, 1972	20,000	—
Advances	—	2,408
	$183,760	$5,443

Note 3 — Capital Stock
Pursuant to the conditions of issue of the 4¾ % Cumulative Redeemable Convertible Voting Preferred Shares, Series A, the company issued on August 1, 1968 a total of 5,000,000 warrants. Each warrant entitles the holder to purchase one common share of the company on or before November 1, 1971 at a price of $12 and thereafter and on or before November 1, 1974 at a price of $14. At December 31, 1968, 2,482 warrants had been exercised, leaving a balance of 4,997,518 warrants outstanding.

Each preferred share, series A, is convertible, at the option of the holder, up to November 1, 1977, into two common shares. At December 31, 1968, 6,685 preferred shares had been converted into 13,370 common shares. The company has, at its option, the right to redeem after November 1, 1972 the preferred shares, series A, then outstanding at a price of $20 per share. Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. At December 31, 1968 the amount of retained income available for such distributions was $46,543,748.

During the year a total of 15,852 common shares was issued, consisting of 2,482 shares on exercise of warrants and 13,370 shares on conversion of preferred shares, series A.

Note 4 — Long Term Debt
The 6½ % First Mortgage Bonds are subject under the Trust Deed to annual sinking fund payments based on percentages of the amount outstanding at March 15, 1969, ranging from 1.452% in 1969 to 7.011% in 1994. For the five years from 1969 to 1973, required payments amount to $938,000, of which $159,000 has been satisfied by the purchase of bonds in 1968.

The 7½ % Promissory Notes are repayable in quarterly instalments of $1,000,000 commencing August 31, 1969, with a final instalment of $2,000,000 payable on February 17, 1974. The first two instalments are included in current liabilities. The balance of the credit negotiated under the terms of this loan, amounting to $5,000,000, was drawn down in February, 1969.

Note 5 — Income Taxes
Commencing with the year ended December 31, 1963, the basis of computing taxable income for a subsidiary, Pacific Logging Company Limited, had been in dispute. In 1968 a settlement was reached under which additional income and logging taxes were payable, resulting in a net charge of $2,858,861 to retained income.

Note 6 — Statutory Information

Income from investments —	
Partly-owned subsidiaries (other than dividends)	$ 1,311,629
Interest on long term debt	533,290
Directors' remuneration —	
From company and subsidiaries consolidated	111,498
From subsidiaries not consolidated	122,733
Commitments for capital expenditures (approximate)	14,620,000
Depletion —	
Charged to expenses for year:	
1968	4,070,189
1967	3,030,303
Accumulated to:	
December 31, 1968	16,697,325
December 31, 1967	12,380,053

Note 7— Balance Sheet Reclassifications
Changes have been made in the balance sheet to reflect current accounting practice, and amounts shown for 1967 have been restated to conform with the presentation adopted for 1968.

Consolidated Balance Sheet, December 31

	1968	1967
Assets		
Current Assets:		
Cash and temporary investments, at cost (approximates market)	**$ 37,836,204**	$ 91,816,851
Deposits with Canadian Pacific Railway Company	**7,938,008**	4,067,403
Dividend (1967 only) and accrued interest receivable from Cominco Ltd.	**208,333**	6,288,061
Other dividends and accrued interest receivable	**2,012,694**	1,819,432
Accounts receivable	**10,652,205**	9,352,601
Inventories, at the lower of cost or market	**3,668,915**	2,963,387
Prepaid expenses	**1,072,657**	525,824
	$ 63,389,016	$116,833,559
Investment Portfolio, at cost	**$276,031,362**	$239,026,323
Investments in Subsidiary Companies not Consolidated:		
Cominco Ltd.	**$183,760,310**	$173,075,802
Other	**5,443,242**	3,419,603
	$189,203,552	$176,495,405
Other Investments, at cost:		
Term loans — affiliated companies	**$ 5,000,000**	$ —
Other	**12,366,768**	7,434,335
	$ 17,366,768	$ 7,434,335
Properties, at cost:		
Oil, gas and other minerals	**$107,480,366**	$ 89,151,647
Timberlands and related facilities	**43,571,299**	40,454,105
Real estate and related operations	**68,414,120**	34,272,671
Hotels	**61,765,108**	58,856,499
	$281,230,893	$222,734,922
Less: Accumulated depreciation, depletion and amortization	**39,029,085**	28,069,791
	$242,201,808	$194,665,131
Other Assets	**$ 3,500,143**	$ 2,995,374
	$791,692,649	$737,450,127

Approved on behalf of the Board:
Ian D. Sinclair, Director
Duff Roblin, Director

See Notes to Financial Statements

	1968	1967
Liabilities		
Current Liabilities:		
Accounts payable and accrued charges		
Canadian Pacific Railway Company	**$ 2,617,188**	$ 3,561,520
Purchase agreement for timberland assets	**—**	7,100,000
Other	**13,282,644**	9,869,045
Notes and accrued interest payable		
Subsidiary companies not consolidated	**648,407**	2,150,849
Other	**73,287,551**	64,813,424
Income and other taxes payable	**8,626,478**	3,094,141
Dividends payable	**10,754,580**	10,032,719
Long term debt maturing within one year	**2,006,000**	—
	$111,222,848	$100,621,698
Deferred Liabilities, principally severance taxes	**$ 1,944,932**	$ 2,477,991
Deferred Credits:		
Deferred income taxes	**$ 23,922,350**	$ 19,068,426
Other	**1,138,245**	816,709
	$ 25,060,595	$ 19,885,135
Long Term Debt:		
6½% First Mortgage Bonds maturing 1995	**$ 11,180,000**	$ —
7½% Promissory Notes due serially 1970-1973	**13,000,000**	—
	$ 24,180,000	$ —
Shareholders' Equity:		
Capital Stock—		
Preferred shares		
Authorized — 12,500,000 shares of a par value of $20 each		
Issued — 4,993,315 (1967 – 5,000,000) 4¾% Cumulative Redeemable Convertible Voting, Series A	**$ 99,866,300**	$100,000,000
Common shares		
Authorized — 100,000,000 shares without nominal or par value		
Issued — 50,015,852 (1967 – 50,000,000) shares	**321,769,264**	321,605,780
Paid-in surplus	**81,800,314**	81,800,314
Retained income	**125,848,396**	111,059,209
	$629,284,274	$614,465,303
	$791,692,649	$737,450,127

Consolidated Investment Portfolio as at December 31, 1968

	Number of Shares	Percentage of Outstanding Voting Shares	Cost	Approximate Market Value
Common Stocks:				
Central-Del Rio Oils Limited	3,370,064	49.97	$ 29,833,803	$ 54,763,540
The Great Lakes Paper Company Limited	924,360	25.66	20,747,814	22,877,910
The Huron & Erie Mortgage Corporation	491,260	10.00	6,466,427	8,228,605
Husky Oil Ltd.	522,200	5.42	5,978,694	12,663,350
The Investors Group	697,200	19.92	8,649,349	6,449,100
MacMillan Bloedel Limited	2,140,500	10.26	64,365,782	61,539,375
Rio Algom Mines Limited	1,132,769	9.25	26,421,187	35,115,839
Trans-Canada Pipe Lines Limited	1,383,840	16.76	51,447,907	53,450,820
Union Carbide Canada Limited	727,925	7.28	16,505,781	14,376,519
Other			1,289,494	1,990,713
			$231,706,238	$271,455,771
Preferred Stocks			$ 28,890,249	$ 30,236,521
Bonds, Debentures and Notes			$ 15,434,875	$ 13,412,850
			$276,031,362	$315,105,142

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited:

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1968 and the statements of consolidated income and consolidated retained income for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd. we have relied upon the report of the auditors who examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants
Montreal, Quebec, March 4, 1969

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Canadian Pacific